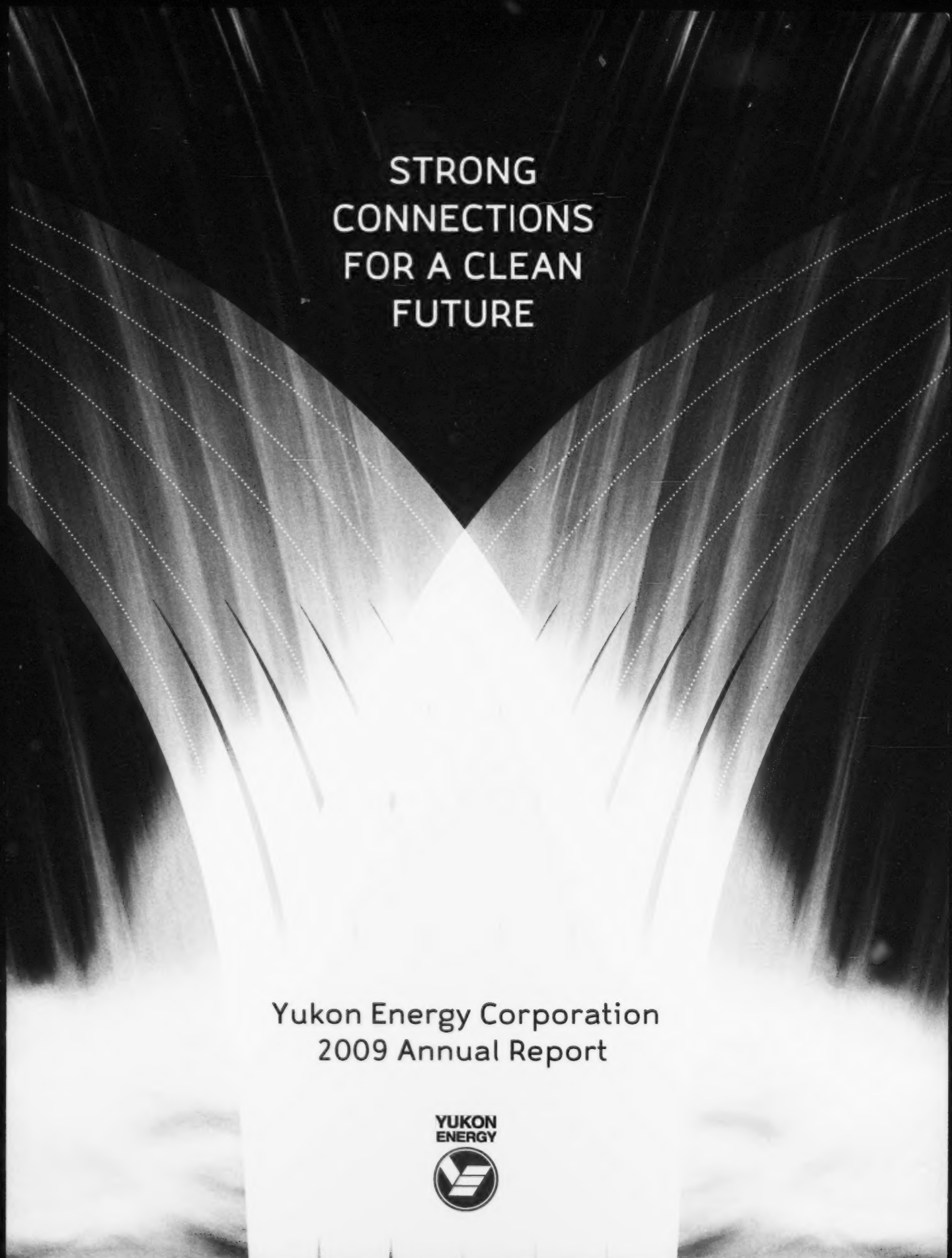

Yukon Energy Corporation
2009 Annual Report

YUKON
ENERGY

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MESSAGE FROM THE PRESIDENT

Yukon Energy's 2009 annual report was prepared under our Board's direction and represents a balanced and accurate summary of the Corporation's economic, environmental and social performance for the calendar year ending December 31, 2009.

As always, Yukon Energy's achievements in 2009 were dependent on the dedicated and highly skilled employees who work at our facilities in such wide-ranging roles as plant operators, electricians, system control centre operators, power line technicians, financial and energy planning experts among others. I would like to thank all our staff for their continued commitment to excellence.

2009 was a particularly challenging year for both our employees and Board of Directors. The board chair, along with three directors, resigned in June. Media coverage of this issue continued throughout the remainder of the year, making it difficult at times for staff to focus on the task at hand. However focus they did and they are to be commended for their professionalism.

In 2009 there was much to be done as we continued our work to improve system reliability while taking steps to ensure there is enough clean, green electricity to meet current and future demand.

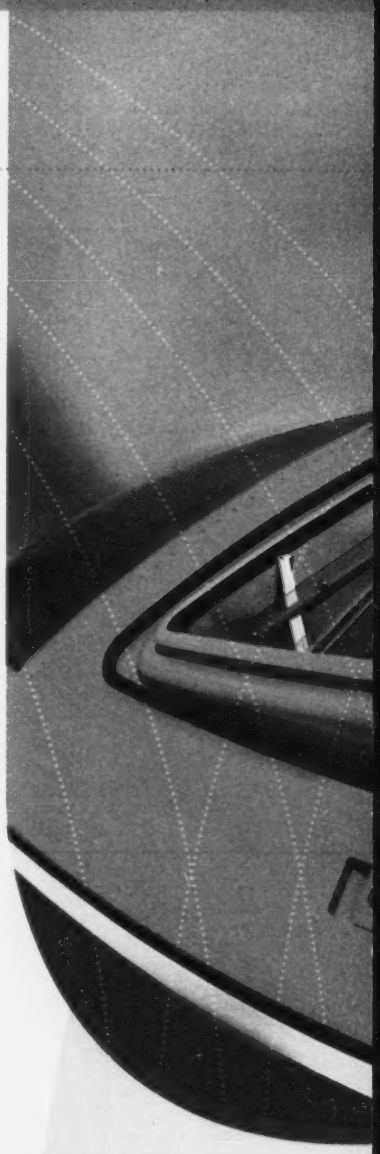
In terms of reliability, we devoted a full two-thirds of our core capital budget to projects aimed at reducing outages. It is gratifying to see that this work is paying off. There were substantially fewer outages on both our major transmission systems than in 2008 (see page 10 for details). Yukon Energy is committed to continuing with the same level of capital maintenance spending over the next several years. We take our responsibility of providing safe and reliable electricity very seriously.

Demand for electrical power in the territory is growing, and Yukon Energy's goal is to meet that growing need with clean, affordable energy that complements our existing hydro system. The Corporation devoted a great deal of time in 2009 to initiatives that will help us meet our goal. These include:

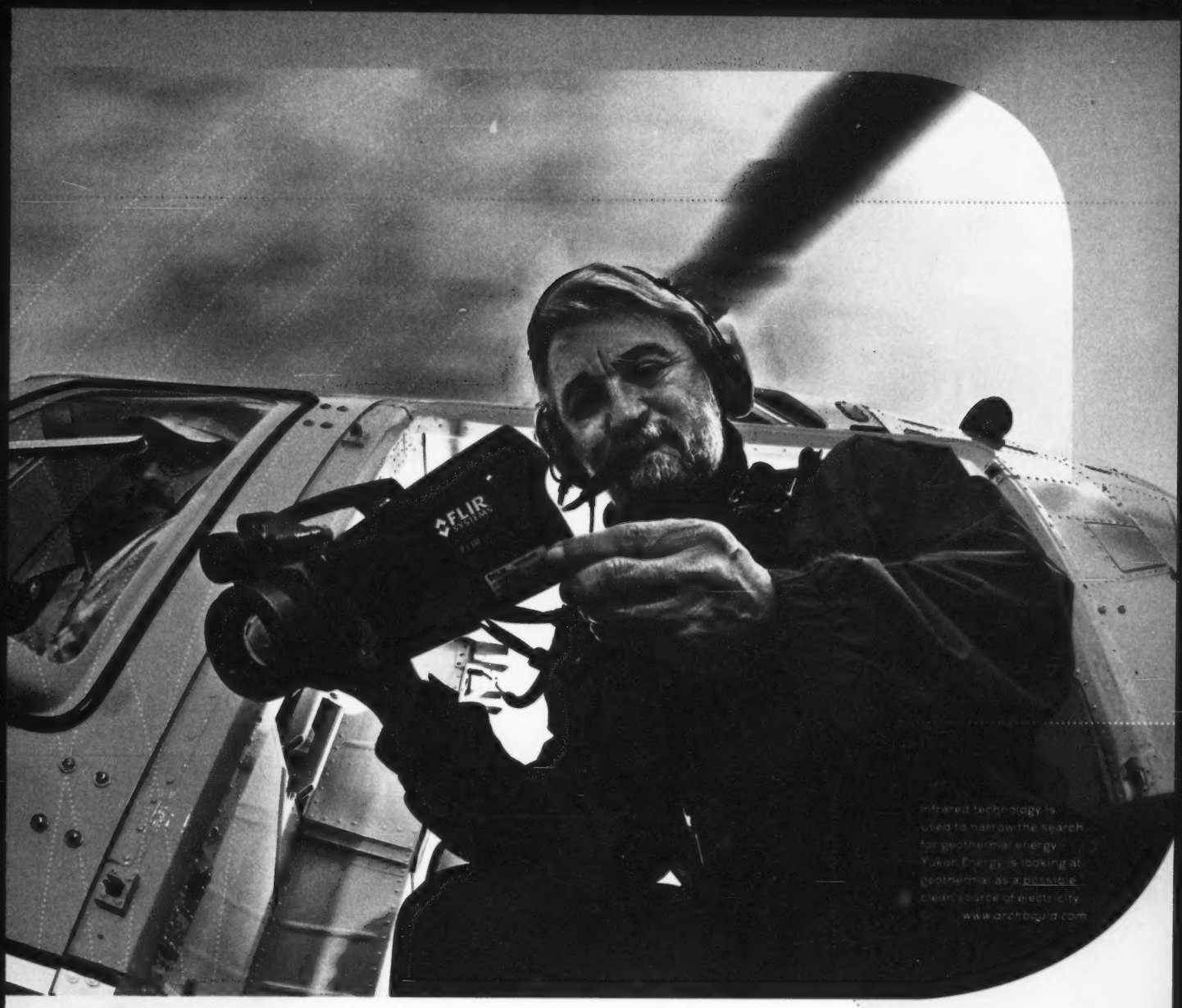
- Mayo B project, which involves building a new powerhouse downstream from the existing plant. It will more than double the amount of hydro power that can be generated, from five to approximately 15 megawatts.
- Carmacks-Stewart Transmission Project – Stage 2, which will see our transmission system extended from Pelly Crossing to Stewart Crossing and will allow us to interconnect our two major hydro grids, thus providing more flexibility and reliability of service.
- Aishihik 3, which will see the installation of a third 7.5-megawatt hydro generator at our existing Aishihik hydro plant.
- Geothermal research, which has provided favourable early results in terms of the possibility of geothermal heat sources being a realistic option for energy production in the Yukon.
- Wind feasibility studies in the Mt. Sumanik area near Whitehorse.
- In conjunction with Yukon Electrical Company Ltd. and the Yukon government, developing a Demand Side Management policy and program and Independent Power Producers and net metering policies.

Details of all these initiatives can be found in this annual report.

In September of this year, our regulator the Yukon Utilities Board rendered its decision regarding the Revenue Requirement Application we made in 2008. While it did not address all parts of our application (it said it wanted to wait for a Phase 2 hearing that included a rate design and cost-of-service study before considering our request to decrease first block rates and increase second block rates), it did allow for a 2.47 percent decrease for most Yukon ratepayers. It allowed Yukon Energy a return on equity of 8.64 percent for 2008 and 8.49 for 2009 and approved our revenue requirement.



In the area of safety, I am very proud to report that in 2009 Yukon Energy attained our Certificate of Recognition (COR) for workplace safety. This indicates the Corporation's health and safety management system has been evaluated by an independent auditor who has determined that we meet the highest industry standards. I am equally pleased by our excellent safety record. Yukon Energy staff have now gone two full years without a lost-time incident, ranking us among the



Infrared technology is used to narrow the search for geothermal energy. Yukon Energy is looking at geothermal as a possible clean source of electricity.

www.archbould.com

best small utilities in the country in terms of number of days lost. This is a testament to the Corporation's high standard of safe work practices.

While our primary responsibility is to provide safe, reliable and cost-effective electricity to Yukoners, we have a strong connection to the communities in which we live and work. Yukon Energy offers financial assistance by way of cash donations to a wide variety of non-profit groups based in the Yukon. In 2009 we gave more than $75 thousand to over 45 community organizations. We also gave scholarships to 14 students entering pre-apprenticeship or post-secondary programs. We completed the fifth full year of an apprenticeship and training benefits agreement with the Na-Cho Nyak Dun and Tr'ondëk Hwëch'in First Nations, as part of an arrangement reached during the construction of the Mayo-Dawson transmission line.

2009 marked the 50th anniversary of the Whitehorse Rapids Fishway, one of the longest wooden fishladders in the world and one of the Yukon's most popular tourist destinations. We celebrated the event with the unveiling of a very special public art piece, created by close to 100 adults and children from all over the territory.

As always, our ultimate goal is to achieve operational excellence. We measure our success by our ability to deliver safe, reliable power to our customers, our ability to attract and retain a skilled and engaged workforce, our respect for the environment and for the communities and people we serve, and the knowledge that safety is a part of every decision we make and every action we take.

David Morrison
President and CEO

CORPORATE PROFILE

Established in 1987, Yukon Energy is a publicly owned electrical utility that operates as a business, at arms length from the Yukon government. We are the main generator and transmitter of electrical energy in the Yukon. We work with our parent company Yukon Development Corporation to provide Yukoners with a secure supply of clean, electrical energy by focusing on renewable sources of power and energy solutions that complement our legacy hydro assets.

There are almost 15,000 electricity consumers in the territory. Yukon Energy directly serves about 1,800 of these customers, most of whom live in and around Dawson City, Mayo and Faro. Indirectly, we provide power to many other Yukon communities (including Whitehorse, Carcross, Carmacks, Haines Junction, Ross River and Teslin) through distribution to the Yukon Electrical Company Limited. Yukon Electric buys wholesale power from Yukon Energy and sells it to retail customers in the territory.

Yukon Energy has the capacity to generate 112 megawatts of power. Seventy five megawatts of that are provided by our hydro facilities in Whitehorse, Mayo and Aishihik Lake (40 megawatts at Whitehorse, 30 megawatts at Aishihik and five megawatts at Mayo), 36 megawatts by diesel generators (which we currently only use as back-up and peaking) and 0.8 megawatts by two wind turbines located on Haeckel Hill near Whitehorse.

Yukon Energy is incorporated under and regulated by the *Business Corporations Act*, the *Public Utilities Act* and the *Yukon Waters Act*.

Our headquarters are located near the Whitehorse Rapids hydro plant in Whitehorse, with community operations in Mayo, Faro and Dawson City.

GUIDING PRINCIPLES AND VALUES

We strive to:

- make safety a priority in all that we do;
- recognize and encourage integrity, learning, growth and development;
- foster an attitude of team work;
- operate with respect for one another;
- be accountable to our customers and shareholders;
- act sustainably at all times (social, environmental and economic bottom-line);
- be innovative when seeking energy solutions;
- take a proactive approach to meeting electrical needs;
- develop partnerships in working to meet electricity needs; and
- optimize the use of our existing assets for the benefit of ratepayers.

STRATEGIC PRIORITIES

Optimize system reliability

The goal is to reduce the number of controllable outages and improve system efficiencies. Towards this end, system procedures are being reviewed and investments are being made to improve and modernize Yukon Energy's electrical generation and transmission equipment. Two thirds of the core capital budget is being dedicated to reliability improvements for the next five years.

To improve efficiencies work is under way to improve the performance of hydro generating equipment and transmission lines. To further maximize efficiencies the Whitehorse-Aishihik-Faro transmission system will be joined to the Mayo-Dawson grid so Yukon Energy's hydro assets can be managed as one unit.

Yukon Energy is also working with Yukon Electrical Company Ltd. to find ways to improve service to distribution customers and to localize outages.

Meet future demand with clean projects that complement the existing hydro system

Yukon Energy is planning for the future. Our challenge is to meet an increasing demand for electricity with clean, renewable energy that complements or works well with the existing hydro infrastructure.

Yukon Energy must also continue to address resource planning issues beyond the existing grid system, to ensure there is clean electrical generation to meet the needs of communities using diesel for electrical production and to support the economic growth of the territory.

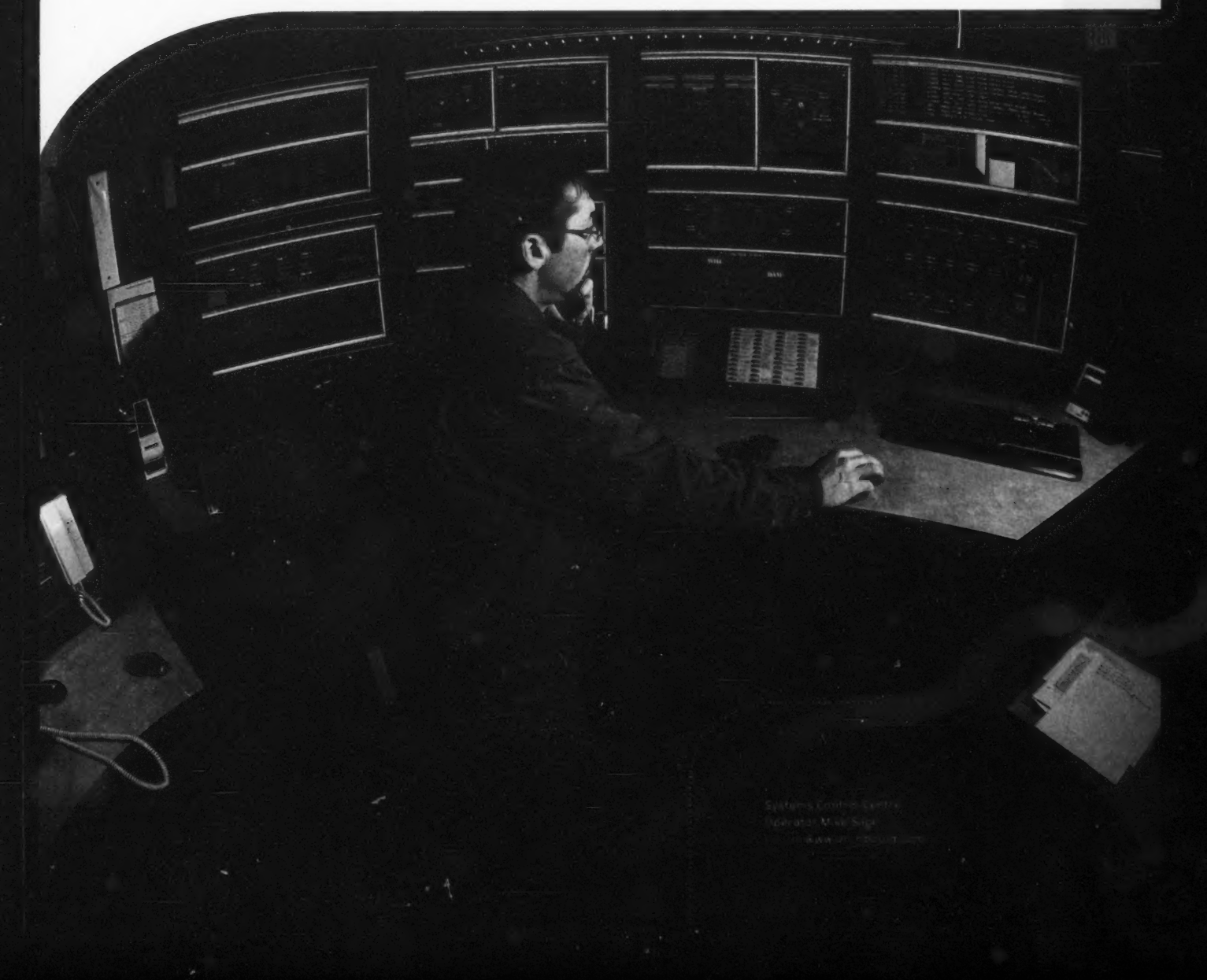
Establish a buffer of surplus renewable energy

To ensure Yukon has a continuous supply of clean energy, resource planning must include a buffer of energy projects that are available but only built if required. It is important that Yukon Energy seek clean/renewable energy solutions for the maintenance of this buffer including the use of conservation management and alternative energy sources.

Engage customers to better meet future energy needs

Yukon Energy cannot fulfill our mandate in isolation. We must work to engage Yukoners so we can collectively create a clean energy future. Our goals are to better define commercial client needs and continue to explore opportunities to work with First Nations and the private sector on energy projects.

We are also working with Yukon Electrical Company Ltd. and the Yukon government to establish Independent Power Producer and net metering policies and develop a conservation/Demand Side Management program.



ALIGNMENT WITH SHAREHOLDER LETTER OF EXPECTATIONS

Under both the *Yukon Development Corporation Act* and the *Corporate Governance Act*, the Minister Responsible for Yukon Energy is to work with our parent, Yukon Development Corporation, to negotiate an annual protocol. That protocol outlines what is expected each year of both Yukon Energy and Yukon Development Corporation. In addition, it has been the practice of the Yukon government to provide the Corporations with additional guidance in the form of a Shareholder Letter of Expectations.

The 2009/10 letter – which covers the period from April 1, 2009 to March 31, 2010 – states that the Corporations will:

- work with Energy, Mines and Resources to complete the revision of the corporate governance structure for approval by the Minister and Cabinet;
- work towards the development of a territory-wide electrical grid;
- work with Energy, Mines and Resources and other stakeholders on implementing the *Energy Strategy for Yukon* and the Climate Change Action Plan;
- prepare for an "energy project" regulatory review of the Mayo B project as outlined in Part 3 of the *Public Utilities Act* and work with Yukon Electrical Company Ltd. in preparing for a cost-of-service study as part of the General Rate Application process that is before the Yukon Utilities Board;
- begin work on Stage 2 of the Carmacks-Stewart transmission line and the Mayo B hydro project, and support the Yukon government's efforts to secure funding for both;
- develop a Project Agreement with the First Nation of Na-Cho Nyak Dun for the Mayo B project;
- undertake the appropriate steps leading to the installation of a third turbine at Aishihik;
- investigate the feasibility of potential water storage/control projects to increase the winter generation capacity of the Whitehorse and/or Aishihik hydro facilities (including Atlin Lake);

LEFT: Powerline Technician Walter Tindall doesn't let frigid temperatures stop him from doing his work. Photo, ***www.archbould.com***

OUR EMPLOYEES

- develop partnerships with B.C. Hydro and Alaska Power to advance the feasibility of the Taiya project;
- ensure that there is in place, and implement, a regular maintenance schedule for Yukon Energy's electrical infrastructure that is consistent with national guidelines, if any, and conforms where possible to established best practices in the industry;
- ensure that there are in place effective plans to deal with power outages, and that those plans are consistent with national guidelines, if any, and conform where possible to established best practices in the industry; and
- carry out regular reviews of the maintenance schedule and outage plans described above, and adapt them to changing circumstances.

Yukon Energy employs approximately 80 highly skilled and dedicated people in Whitehorse, Faro, Mayo and Dawson City. We are committed to being the employer of choice in the Yukon. We value our employees and ensure that we provide a respectful work environment. We offer competitive salaries, excellent benefits, vacation travel allowance and comprehensive training.

In Yukon Energy's overall Human Resources strategy, employees are deemed essential to the realization of the corporate vision. To maintain and enhance the skills needed to achieve our business objectives, the Corporation undertakes to:

- attract, recruit and retain a competent work force that shares our values and is motivated to help sustain and improve the company's assets;
- offer our employees opportunities for professional development to ensure a high level of skill, expertise and leadership; and
- ensure succession planning and the continuity of know-how.

RIGHT: Powerline Technicians Brett Holmes, Calvin Kirkwood and Dave Bourque. Photo: *www.archbould.com*

OUR EMPLOYEES *cont'd*

Apprenticeship Program

Yukon Energy's apprenticeship program is an important part of our human resource strategy in meeting some of our labour needs for both the present and future. It is rewarding to see the program progress since its implementation just a few short years ago.

Congratulations to the following employees for receiving their journey certification in 2009:

- Calvin Kirkwood – Powerline Technician
- David Bourque – Powerline Technician
- Mike Sage – Powerline Technician
- Scott Hoffmann – Power System Electrician

Workforce Planning

During the last quarter of 2009 Yukon Energy contracted with a consulting firm to deliver a workforce planning analysis and report. The consultant will work collaboratively with stakeholders to assess the current workforce and develop a workforce plan to support the evolving business, accounting for both short- and long-term needs. This is important for the Corporation as we manage planned growth, the introduction of new technology, optimizing staff workloads and an aging workforce (over 43 percent of our workforce is 50 years of age or older). These issues are compounded by the unique challenges of operating a utility in the North.

Wellness Program

We recognize the benefits of a healthy workforce. Two years ago we introduced an employee wellness program to promote and support our staff's physical and mental health. In 2009, more than 30 percent of the employees took advantage of the Corporation's wellness subsidy program.

Long Service Awards

We are proud of our workforce and we have adopted several initiatives to celebrate and recognize our employees' efforts. These include an annual celebration to recognize employees achieving milestones, annual employee and children's Christmas parties, summer barbeques, golf tournaments and other ad hoc get-togethers. We would also like to congratulate our 2009 Long Service Award recipients:

- Ron Kirkwood – 25 years
- Gary McLaughlin – 20 years
- Danny Sutherland – 20 years
- Ed Peake – 10 years
- Pat Williams – 10 years
- Melaine Fillion – 5 years
- Lynda Harlow – 5 years
- David Morrison – 5 years
- Janet Patterson – 5 years
- Mike Sage – 5 years
- Albert Schwarz – 5 years
- Sheldon Sollosy – 5 years

Plant Operator Michael Sam.
Photo: *www.archbould.com*

SUMMARY OF UTILITY OPERATIONS

	2009	2008	2007	2006	2005	2004
Generating Capacity (in MW)						
Hydro	75	75	75	75	75	75
Diesel	36	36	36	36	36	36
Wind	1	1	1	1	1	1
Total	112	112	112	112	112	112
Peak Demand (in MW)						
WAF System	65	64	59	61	56	57
Mayo	5	5	5	5	4	4
Dawson	0	0	0	0	0	0
Total	70	69	64	66	60	61
Generation (in GWh)						
Whitehorse Rapids	224	206	206	217	202	206
Aishihik	119	107	98	81	81	71
Mayo	29	28	27	27	25	24
Wind	0	0	0	1	—	0
WAF Diesel	2	1	0	1	—	0
Other Diesel	1	0	1	—	1	1
Total	375	342	332	327	309	302
Electric Sales (in $000)						
Residential	1,535	1,523	1,509	1,456	1,397	1,395
General Service	3,007	2,804	2,731	2,645	2,838	2,216
Industrial	3,191	329	—	—	—	20
Wholesale	22,291	22,999	22,459	22,127	20,925	20,773
Secondary Sales	1,442	777	1,000	917	767	369
Other	81	86	377	383	371	131
Total	31,547	28,518	28,076	27,528	26,298	24,904
Electric Sales (MWh)						
Residential	11,596	11,359	10,908	10,665	10,169	10,199
General Service	20,042	18,523	17,507	17,037	18,438	14,016
Industrial	29,355	3,200	—	—	—	247
Wholesale	267,229	263,820	254,914	251,861	237,419	235,982
Secondary Sales	17,384	18,753	24,225	22,185	18,933	16,517
Total	345,606	315,655	307,554	301,748	284,958	276,961
Cents Per kWh						
Residential	13.24	13.41	13.84	13.66	13.74	13.68
General Service	15.00	15.14	15.60	15.52	15.39	15.81
Industrial	10.87	10.28	—	—	—	8.04
Wholesale	8.34	8.72	8.81	8.79	8.81	8.80
Secondary Sales	8.29	4.14	4.13	4.13	4.05	2.23

Explanatory notes:

- Generally the cents/kWh rates are reduced as Rider J rate was lower during 2009 (11.45%) than in 2008 (14.93%). Rider J does not apply to Industrial or Secondary Sales.
- General Service growth was on Mayo-Dawson grid where the Alexco Mine performed sampling activities during 2009.
- 2009 Secondary Sales revenues reflect the rate change impact of YUB 2009-8 for both 2008 and 2009. If the revenues were restated by year then 2009 would equal 1,066 and 2008 would equal 1,152, which would make them more comparable.
- 2009 was the first full year for the Minto mine as an Industrial customer.

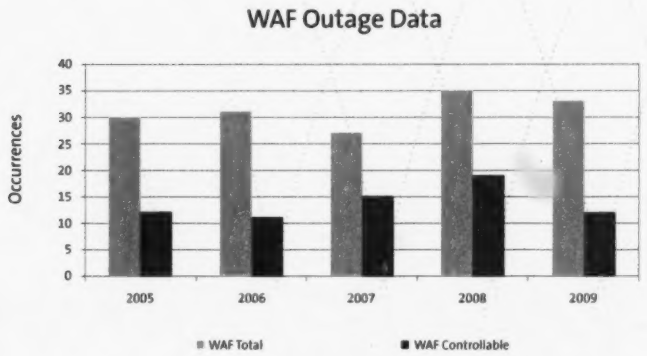
ENSURING RELIABILITY OF SERVICE

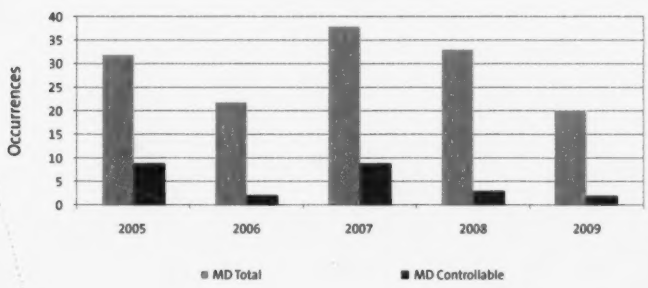
We take our responsibility to provide reliable power very seriously. In 2009 Yukon Energy embarked on an aggressive capital maintenance schedule that saw approximately two-thirds of our core capital budget go towards projects related to reliability. Over the course of the year we worked our way through a list of maintenance capital projects, and as a result we have seen significant improvement in terms of number of outages. There were 12 controllable outages on our Whitehorse-Aishihik-Faro (WAF) transmission system in 2009, compared to 19 in 2008. Of the 12 controllable outages in 2009, seven affected a significant portion of the WAF grid. The other five were limited to a very small geographic area. There were also significant improvements in controllable outages on our Mayo-Dawson grid. There were two controllable outages on the Mayo-Dawson line in 2009 compared with six in 2008.

In spite of these improved numbers, we recognize that we must continue to make improvements to our system in an effort to eliminate our controllable outages. We are committed to continuing with an aggressive capital maintenance schedule for the foreseeable future and we are committed to providing safe, reliable energy for all Yukoners.

In terms of ongoing equipment and line maintenance, Yukon Energy has an increased focus on ensuring we are doing the correct maintenance at the right time. This planning is intended to lead to the implementation of a maintenance management system to further ensure our assets are receiving the best care possible.

CHART OF CONTROLLABLE OUTAGES IN 2009 VS PAST YEARS





MEETING ENERGY DEMAND NOW AND INTO THE FUTURE

Yukon Energy is planning for the future in ways that will ensure a secure and continuous supply of clean, affordable energy. Our goal is to meet the growing demand for electricity with renewable energy that complements our existing hydro system. To that end, we pursued a number of initiatives in 2009 that will enhance our current infrastructure.

Mayo B

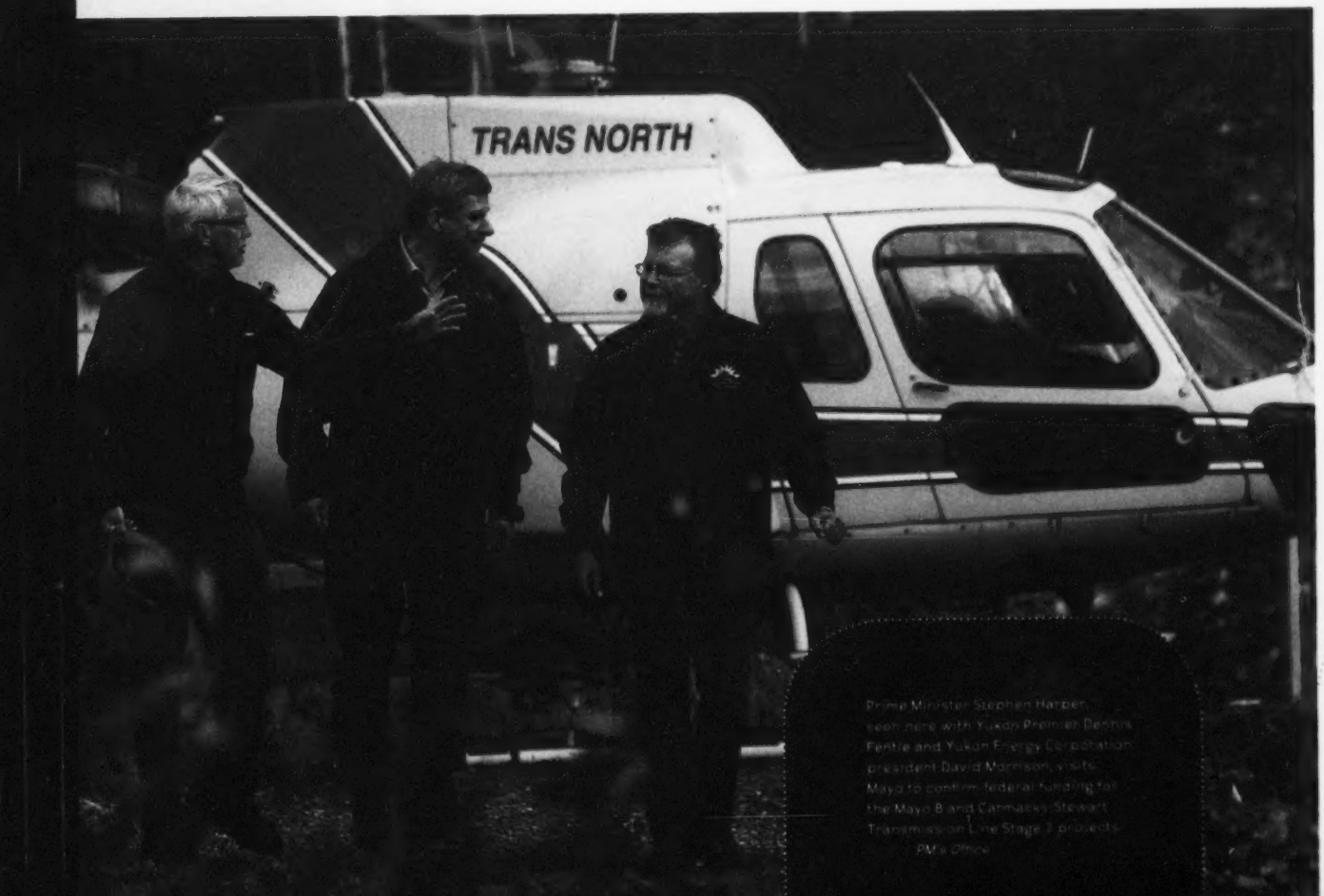
The Mayo B project involves building a new powerhouse about three kilometres downstream from the existing powerhouse. It will more than double the amount of power that can be generated from the Mayo River, from five to approximately 13 megawatts.

In February 2009 Yukon Energy submitted a project proposal to the Yukon Environmental and Socio-Economic Assessment Board (YESAB) regarding Mayo B. As well, in May 2009 the federal government announced it would provide up to $71 million for the Mayo B project and for completion of the Carmacks-Stewart Transmission Project (collectively known as the Green Energy Legacy Project). In September, Prime Minister Harper confirmed the funding during a visit to Mayo.

Additional funding for these projects will come from the Yukon government/Yukon Development Corporation and Yukon Energy. As well, the First Nation of Na-Cho Nyak Dun has been offered investment opportunities related to Mayo B. We expect to conclude a project agreement with the First Nation in 2010.

Carmacks-Stewart Transmission Project – Stage 2

Work moved forward in 2009 on Stage 2 of the Carmacks-Stewart transmission line (Stage 1 – from Carmacks to Pelly Crossing was completed in 2008). Stage 2 will see the line extended from Pelly Crossing to Stewart Crossing. It will allow Yukon Energy to interconnect our two hydro grids (Whitehorse-Aishihik-Faro in the Southern Yukon and Mayo-Dawson in the Northern Yukon), thus providing more flexibility and reliability of service.



Prime Minister Stephen Harper, seen here with Yukon Premier Dennis Fentie and Yukon Energy Corporation president David Morrison, visits Mayo to confirm federal funding for the Mayo B and Carmacks-Stewart Transmission Line Stage 2 projects.
PM's Office

MEETING DEMAND NOW AND INTO THE FUTURE *cont'd*

Survey work on Stage 2 began in October, and clearing started in November. We expect line construction to commence in the late winter of 2010 and the line energized by the spring of 2011.

We anticipate that the construction of Mayo B and Carmacks-Stewart Stage 2 will provide substantial economic benefits for Yukoners. In total, it's estimated that between 200 and 300 local residents will work on these two projects. The projects will reduce greenhouse gas emissions by 25,000 tonnes annually.

Aishihik 3

This is another project aimed at enhancing existing infrastructure. By adding a seven-megawatt hydro generator to the existing Aishihik hydro plant (which currently has two 15-megawatt hydro generators) we will be able to use our plant more efficiently, since it will give us the ability to produce the same amount of power using less water. Our longer term plan is to obtain permission from the Yukon Water Board to run all three hydro units at once when needed. This new unit will save Yukoners $1 million or more per year in diesel costs and reduce greenhouse gas emissions by an estimated 3,800 tonnes annually.

In 2009 we ordered the new turbine and prepared the Aishihik plant for installation by excavating rock from the area where the generator is to be placed. Further preparation will be done during the first half of 2010. The new turbine will be installed and connected to the grid in the latter half of 2010.

The Aishihik 3 project is being made affordable by a $5 million contribution from the federal government. The total cost of Aishihik 3, in 2009 dollars, is about $8.9 million.

Geothermal

Yukon Energy is looking at all possible sources of clean, renewable energy to meet future demand, including geothermal. Because Yukon is located in an area of the Pacific known as the Ring of Fire, we believe the potential is good for finding significant geothermal resources that could be used to produce electricity.

With the help of a $125,000 contribution from the Yukon Cold Climate Innovation Centre, we conducted some geothermal research this year using remote sensing satellite imagery and infrared thermal sensors to find sites where geothermal rescurces exist. While early results are favourable, more work will be done in 2010 and 2011 to determine if geothermal is a realistic option for Yukon. Geothermal heat sources, once built, are a highly efficient, reliable supply of clean electricity.

Wind

While our two experimental wind turbines on Haeckel Hill have presented some ongoing challenges, we continue to look for ways of using wind as a part of our renewable energy complement. In 2009 Yukon Energy completed a preliminary wind feasibility study of a 20-megawatt wind farm on Mt Sumanik near Whitehorse. We are also continuing our investigation of Ferry Hill near Stewart Crossing as a possible site for a wind farm, and we are continuing to develop a wind energy economic assessment tool as part of our Renewable Energy Development program.

Enhanced Storage Projects

Yukon Energy is committed to optimizing our existing hydro infrastructure before developing new hydro projects. To this end, there are a number of enhancement concepts we are examining that will increase production at our Whitehorse and Aishihik hydro facilities. These include additional storage in Marsh Lake and storage in Atlin Lake, both of which would increase the winter output of our Whitehorse hydro facility. Diverting water from Gladstone Creek into Aishihik Lake would allow more power to be produced at our Aishihik plant. These projects could provide up to 35 additional gigawatt hours of energy annually (18 from Gladstone, nine from Atlin and eight from Marsh Lake).

This year Yukon Energy developed consultation protocols and processes to ensure governments, stakeholders and the general public are engaged very early in the resource planning process and throughout the assessment, permitting and construction stages. Transparency and timeliness are the key pillars of this initiative. In 2010 we plan to continue moving forward with this engagement process.

Yukon Energy is also exploring the next generation of large hydro development projects (i.e. 2012 to 2020 time frame), such as possible sites on the upper reaches of the Pelly River. We believe this would provide between 150 and 275 gigawatt hours of energy annually. In 2010 money will be spent on preliminary engineering and environmental studies.

Diesel Improvements

While we consider ourselves primarily a producer of renewable energy, there are times when we must rely on our backup diesel generators to meet the demand for electricity. Work continued in 2009 to rebuild two of our oldest large diesel generators – one in Faro and one in Whitehorse. This is being done as a cost effective means of ensuring there is adequate backup generation available on the Whitehorse-Aishihik-Faro grid in the event of loss of one or more renewable energy generators.

Over the next several years we will look at refurbishing two more Whitehorse diesel generators as necessary.

Southern Lakes Hydrology Study

Yukon Energy continued work in 2009 to learn more about the Southern Lakes system, which provides the water for our Whitehorse hydro plant. We are gathering a body of research that is helping us better understand water flows and lake levels. In particular we are collecting data on how the various lakes interact with one another with respect to fall flooding that sometimes occurs, and what effect potential hydro projects in the area would have.

In addition, groundwater measuring devices were installed in the Army Beach area of Marsh Lake. These piezometers will help us understand the effect of Marsh Lake levels on the groundwater levels in low-lying areas adjacent to the lake.

Independent Power Producers/Net Metering Policies

Yukon Energy is working with Yukon Electrical Company Ltd. and the Yukon government on Independent Power Producers (IPPs) and net metering policies. When implemented, a net metering policy will allow customers to generate their own clean electricity and reduce the amount of power they buy from a utility. An IPP policy will enable Yukon Energy to buy power from private sources and support the development of Yukon's renewable economy.

Secondary Sales

Interruptible sales of surplus hydro energy continue to be a valuable source of revenue for the utility, allowing the cost of primary or firm power sales to be reduced by the revenues received from the secondary sales. In 2009 sales were down from 2008 sales levels by eight percent but still accounted for six percent of Yukon Energy's total energy sales.

LEFT: A skip full of blast-rock makes its way up the Aishihik plant crane shaft to be disposed of outside. Photo: ***Derek Crowe***

MEETING OUR REVENUE REQUIREMENT

Revenue Requirement Application

In the fall of 2008, Yukon Energy applied to the Yukon Utilities Board (YUB) for approval of our 2008 and 2009 revenue requirements. As a result of completing Stage 1 of the Carmacks-Stewart line and obtaining a new industrial customer, we were able to ask for a rate decrease. To promote energy conservation and efficient price signals, Yukon Energy proposed a 17.8 percent rate reduction for the first block energy charges. Second block energy charges would have been increased, with all the resulting added revenues going to the proposed first block reduction.

In rendering its decision in September 2009, the Yukon Utilities Board said it wanted to wait for a Phase 2 hearing, including a rate design and cost-of-service study, before considering our request to decrease first block rates and increase second block. Until that time, it has allowed a 2.47 percent decrease for most customers (excluding secondary sales customers and the Minto mine).

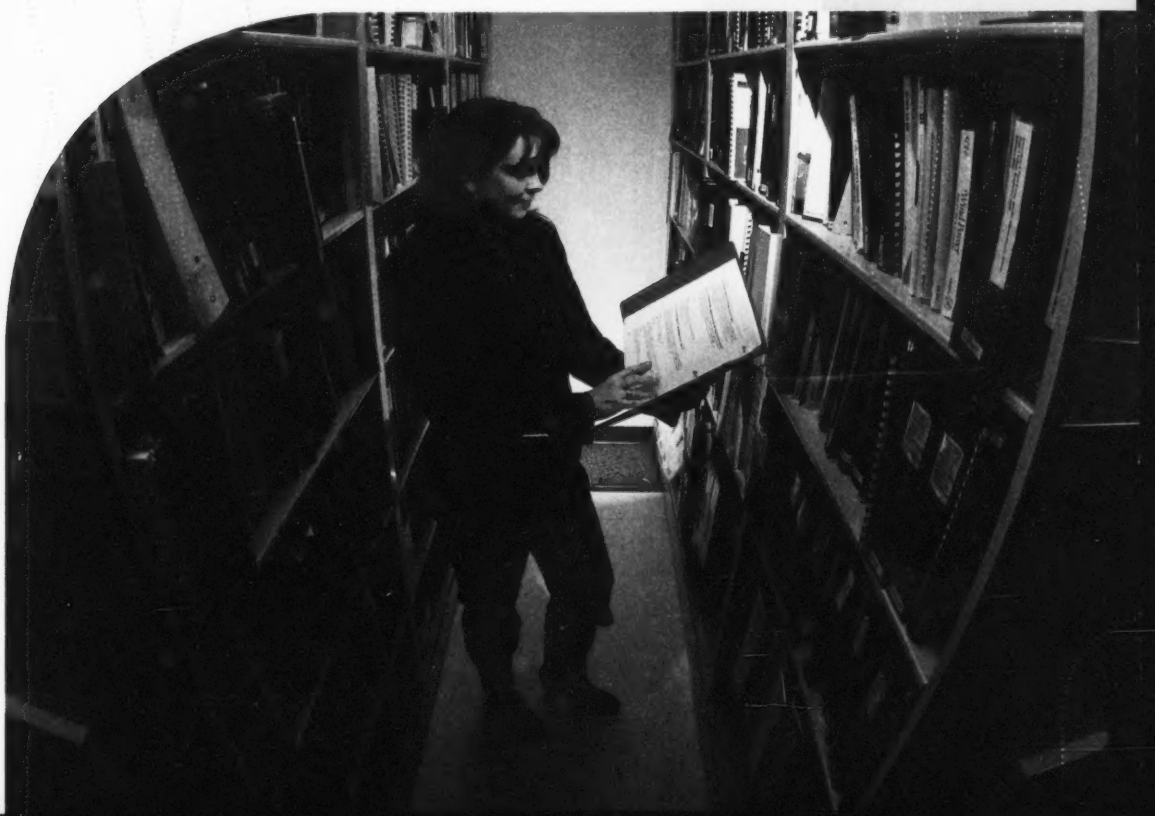
The Utilities Board made a number of other decisions regarding our application. It has determined that almost all our costs can be put into revenue requirement (meaning passed on to the customer).

With regard to the Carmacks-Stewart Transmission Project, the YUB said it was convinced that this new transmission line provides a net economic benefit to Yukoners.

As far as spending money on planning for future generation projects, the Board said that Yukon Energy doesn't have the luxury of waiting for new energy loads to materialize with full certainty before planning and building facilities needed to meet growing electrical demand. It supported our ongoing work to have projects "shelf ready" so they are ready to proceed at some future date as circumstances warrant.

Other points included in the Utilities Board Order:

- Yukon Energy and Yukon Electrical Company Ltd. are to submit a joint policy paper/plan for Demand Side Management strategies (energy conservation strategies).
- Both utilities must provide the Board with Key Performance Indicators that show improvements in reliability.
- Yukon Energy is to continue with its work of refurbishing our oldest diesel units (Mirrlees), which will provide backup power when needed.
- Yukon Energy is allowed a return on equity of 8.64 percent for 2008 and 8.49 percent for 2009.



HEALTH AND SAFETY

Certificate of Recognition

After many months of hard work, Yukon Energy was successful in 2009 in attaining our Certificate of Recognition (COR) for workplace safety. The COR is issued to employers who develop and implement health and safety programs that meet established standards set out by the Northern Safety Network and the Yukon Workers' Compensation Health and Safety Board.

A COR recognizes that Yukon Energy Corporation's health and safety management system has been evaluated by an independent certified auditor and found to meet industry standards. The audit was carried out at Yukon Energy's Dawson City, Mayo and Whitehorse operations.

Yukon Energy believes that by participating in this program we have strengthened our business success and shown leadership in the community.

Safety Record

Yukon Energy would like to recognize the excellent safety record that our employees have achieved. As of the end of 2009, Yukon Energy staff worked two years without a lost time incident. This safety record is a testament to our employees' high standard of safe work practices. Yukon Energy's lost time severity rate (the number of days lost) is among the lowest in the country for Canadian Electricity Association members who have fewer than 300 employees.

Public Safety Campaigns

Yukon Energy's Whitehorse Rapids hydro dam is located within city limits and in the heart of a popular recreational area, used by runners, hikers, kayakers and dog walkers. Because of this, public safety is a priority for us. As in previous years, in 2009, we ran an annual media campaign that warned people of the dangers of being near a hydro dam. In addition, we continued to distribute a safety booklet that we produced in 2008 in both English and French. The booklet, aimed at elementary school children, focuses on the importance of taking care when playing or recreating near or on water that is close to our hydro facilities.

Passport to Safety

For the past five years, Yukon Energy has participated in a national program aimed at eliminating workplace injuries and deaths. The Passport to Safety Program supports and encourages education and workplace-specific safety training for all employees. It offers an on-line test to help make people aware of their rights and responsibilities regarding health and safety, and therefore better prepares them to keep safe while at work.

Yukon Energy is promoting this program during the hiring process, and completion of the on-line test is an asset to people applying for a job at our company.

Student Video Contest

In 2009 Yukon Energy was a major sponsor of the first annual Young Worker Safety Student Video Contest. The purpose of the contest was to encourage Yukon youth to take an active interest in their health and safety at work. High school students throughout the territory were invited to make short videos (up to 60 seconds) on the theme "common workplace hazards." Cash prizes were awarded to participating schools and skills clubs, and to the student filmmakers.

Maintenance Electricians Paul Leslie and Willy McKenna. Photo: *www.archbould.com*

Records Management Analyst Myrna Engren. Photo: *www.archbould.com*

PROTECTING OUR ENVIRONMENT

Environmental Management System

The mandate of Yukon Energy's environmental management program is to implement the Corporation's environmental policy and to act as the framework for our sustainability-related initiatives. The program provides support for efficient and effective systems to minimize the adverse environmental impacts of our facilities, operations and business. In 2009 Yukon Energy did an assessment of our existing Environmental Management System (EMS) as part of an ongoing program of system checking and continual improvement. The assessment indicates that a process to update the EMS should be developed. We expect an improved EMS to be completed in 2010.

Climate Change/GHG Emission Reductions

Yukon Energy is committed to managing greenhouse gas emissions to mitigate the impact of our operations on climate change, while adapting to its effects. Yukon Energy recognizes that we cannot address climate change alone and we are working with government, other organizations and individuals to adopt an appropriate and workable approach.

With the commissioning of Stage 1 of the Carmacks-Stewart transmission line in 2008, both the Minto Mine and the community of Pelly Crossing have been able to switch from diesel to hydro power. That is resulting in annual reductions of between 25,000 and 30,000 tonnes of greenhouse gas emissions. In addition, Yukon continues to benefit environmentally from the construction of the Mayo-Dawson transmission line. Since its completion in 2003, it has supplied residents of Dawson with clean hydro electricity (Dawson's diesel generators are now only used as emergency backup) and has reduced diesel emissions by 10,000 tonnes a year.

Once our third turbine at Aishihik is installed and our Mayo B and Carmacks-Stewart Stage 2 projects are completed we will see additional greenhouse gas reductions of approximately 28,800 tonnes annually (3,800 tonnes for Aishihik 3 and 25,000 tonnes for Mayo B and Carmacks-Stewart Stage 2).

Going forward, Yukon Energy is committed to working to further address climate change impacts by:

- incorporating environmental performance considerations in our procurement decisions;
- identifying and, where possible, incorporating energy efficiency standards into new capital construction projects;
- seeking opportunities to improve energy efficiency and thus reduce the greenhouse gas emissions of our generation activities as well as our light vehicle fleet; and
- conducting an energy analysis of all our buildings and completing energy saving retrofits where feasible.

Discussion regarding climate change in 2009 resulted in a decision to conduct climate change adaptation planning in 2010.

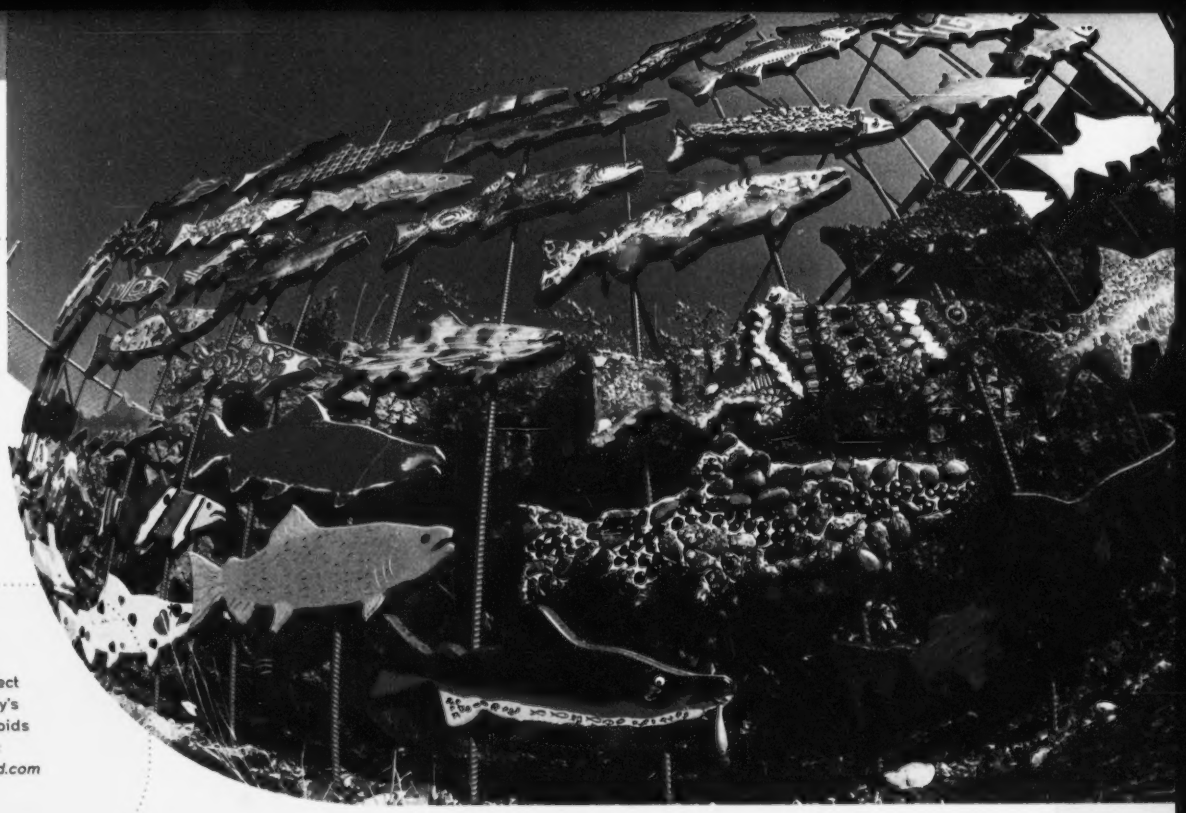
Energy Conservation/Demand Side Management

Demand Side Management (DSM) is a term used to describe ways of encouraging/influencing customers to reduce energy consumption, either in general or at particular times of the day when our energy-supply systems are constrained. Such efforts are generally made to optimize available and planned generation resources and where possible to help defer the need for new energy and capacity supply additions. This year Yukon Energy began work with Yukon Electrical Company Ltd. and the Yukon government to develop a Demand Side Management policy and program. This initiative will continue into 2010.

We also worked to improve efficiencies of our own equipment and assets.

One simple DSM tool we developed in 2009 is an energy consumption chart, aimed at helping Yukoners manage their energy use and reduce the amount of diesel generation needed to meet peak energy demands in winter.

Surveying for the Carmacks-Stewart Transmission Project. Photo: ***www.archbould.com***



Public art project at Yukon Energy's Whitehorse Rapids Fishway. Photo: *www.archbould.com*

The chart shows the expected energy demand at various times of the day, including the peak breakfast and dinner hours, over a seven day period. It indicates how close we are to reaching our hydro capacity and when we will need to supplement with diesel to provide the required amount of power. The chart is updated weekly during the winter months and is posted on our public website and blog.

By looking at the chart and seeing that Yukon Energy is very close to burning diesel, members of the public are encouraged to think about how they can reduce their energy consumption during those peak times. While this chart is a small step, we hope it will prompt people to think about how and when they use electricity. That will not only help Yukon Energy, but it will be good for consumers' pocket books.

A Greener Kitchen

Yukon Energy embarked on a pilot project in 2009 to reduce the amount of kitchen and office waste we produce at the Whitehorse Rapids facility. The project involved having staff sort their waste into bins for compost, recyclables and garbage. The result is that we have reduced the amount of office waste going to the landfill by approximately 70 percent (the equivalent of more than three tonnes of office waste) and we expect this number to climb as employees become more familiar with the system. Compostable and/or recyclable dinnerware, cups and utensils are also in service to reduce waste volumes directed to the city landfill.

Whitehorse Rapids Fishway

Yukon Energy is proud of our commitment to environmental stewardship and biodiversity. In cooperation with our partners the Yukon Fish and Game Association and the Yukon government, we maintain one of the world's longest fishladders. It not only provides passage for migrating Chinook salmon beyond the Whitehorse dam, but offers opportunities for scientific and cultural information gathering and sharing. It is one of the territory's most popular tourist destinations.

2009 marked the 50th anniversary of the fishway. To commemorate this event, a special audio-visual display was produced that tells the story of the building of the fishladder and its evolution into the salmon museum that it is today. As well, close to 100 Yukoners from all over the territory helped create a special commemorative public art piece that has been installed at the fishway.

Other improvements in 2009 included more new interpretive panels, a new First Nations interpretive tent, and an upgrade of our underwater salmon cameras to allow the fish to be viewed on-line in real time by both PC and Mac users. Until this year, only PC users could access the web cam. The camera remains a popular feature with people from around the world.

After two years of low returns, it was encouraging to see a substantially higher number of salmon returning to their spawning grounds above the Whitehorse Rapids. There was a total of 828 salmon this year, compared with 399 in 2008 and 427 in 2007. The increase in numbers was due, in part at least, to fishing restrictions put in place by the Alaskan and Yukon governments.

BUILDING LONG-TERM RELATIONSHIPS

Whitehorse Rapids Fish Hatchery

Yukon Energy, with our partner the Yukon government, operates an important fish hatchery on the Yukon River in Whitehorse. The 2009 Chinook salmon run, although stronger than previous years in terms of numbers, was heavily skewed in favour of male fish. This left fewer females to be selected for broodstock, as the program must let at least 70 percent of females through to the spawning grounds. Even with the lower number of eggs, the hatchery was still able to support a Ta'an Kwäch'än First Nation initiative to re-introduce Chinook salmon to Fox Creek by providing salmon eggs for the program for the second straight year.

Supervisor Nathan Walker counts and inspects fish as they travel through the Whitehorse Rapids Fishway. Photo: *www.archbould.com*

Aishihik Lake Whitefish Stewardship

As part of our ongoing commitment to ensuring impacts of our operations are reduced, minimized or avoided, Yukon Energy – with our resource management partners the Department of Fisheries and Oceans, the Yukon government and the Champagne and Aishihik First Nations – successfully completed our 11th annual Aishihik Lake Whitefish Monitoring Program. The 2009 program consisted of small mesh gillnetting and beach seining. The intent of the program is to monitor the success of whitefish spawning by observing the emergence of young fish into the lake whitefish population. The results of the 2009 program were positive in that we found favourable numbers of juvenile whitefish present in the lake.

Also in 2009, there was agreement between Champagne and Aishihik First Nations, the Yukon government's Department of Environment and the federal Department of Fisheries and Oceans that the conditions in the current Fisheries Act Authorization require revisions to address technical problems and to provide for a more adaptive and responsive management approach. The new authorization is expected to be issued in 2010.

Carmacks-Stewart Transmission Project Agreement

Part of our work towards getting the necessary approvals for the Carmacks-Stewart Transmission Project involved meaningful and on-going consultations with the Northern Tutchone First Nations, project area residents, Renewable Resource Council members, government departments and other members of the public. We worked closely with them to select the route for the transmission line. With their input, the route design was refined to avoid – wherever possible – wetlands, traplines and associated camps/cabins. Routing was also designed to minimize the effect on valued viewscapes and to avoid protected areas, areas of critical habitat for moose and caribou, and areas with potential heritage resources. Yukon Energy had an inventory done of rare plants that occurred along the transmission line's proposed route. The location of the plants was marked and measures were taken to ensure they were not disturbed or removed during line construction.

Yukon Energy also reached a project agreement with the Northern Tutchone First Nations, which addressed such issues as land use and socio-economic benefits for their members. The First Nations partnered with other companies to do the line clearing. Clearing was done principally by mechanical methods, although hand clearing was used in areas with sensitive terrain or other important features, such as near rivers, wetlands, and areas of high heritage potential. Yukon Energy entered into a timber salvage agreement with the Yukon government and Northern Tutchone First Nations that allowed for more than 8,200 cubic metres of timber to be salvaged using environmental best practices (approximately 5,600 cubic metres from Stage 1 and more than 2,600 cubic metres from Stage 2). The salvage is being used by the Yukon and First Nation governments for lumber or firewood.

Mayo B Project Agreement

Yukon Energy believes in building partnerships in terms of developing any new major project. In the case of Mayo B, we are working with the First Nation of Na-Cho Nyak Dun to reach a project agreement. This agreement will outline economic opportunities and benefits for the First Nation, including options for investment. In working with us on this agreement, the First Nation of Na-Cho Nyak Dun has indicated its general support for the Mayo B project. We expect to have the agreement concluded in early 2010.

Mayo-Dawson Transmission Line Benefits Agreement

The Mayo to Dawson City transmission line, which has operated since the fall of 2003, involved building a 232-kilometre long transmission line and related infrastructure to connect Dawson City to the Mayo hydroelectric station. It has allowed Yukon Energy to

supply Dawson with clean surplus hydroelectricity (Dawson's diesel generators are now only used as emergency backup) and has reduced greenhouse gas emissions by 10,000 tonnes a year.

In 2009, for the fifth full year, Yukon Energy fulfilled its training agreements with the First Nation of Na-Cho Nyak Dun and the Tr'ondëk Hwëch'in First Nation, as part of the Mayo to Dawson Transmission Line Benefits Agreement. Through this agreement, we provide each of the two First Nations up to $15,000 a year for apprenticeship and training opportunities. The agreement is for 20 years with an option to renew for a further five years. We believe this is going a long way in helping the Tr'ondëk Hwëch'in and Na-Cho Nyak Dun achieve their training needs and is assisting members of the two First Nations to find meaningful employment.

Project Specific Public Meetings

In an effort to keep Yukoners up to date on our major projects, Yukon Energy held public meetings and Open Houses in 2009 in Mayo (on two separate occasions), Pelly Crossing, Haines Junction and Whitehorse. In all cases, presentations were given, people had a chance to ask questions, and there was written material (newsletters, maps and information sheets) available for the public to read and/or take home with them.

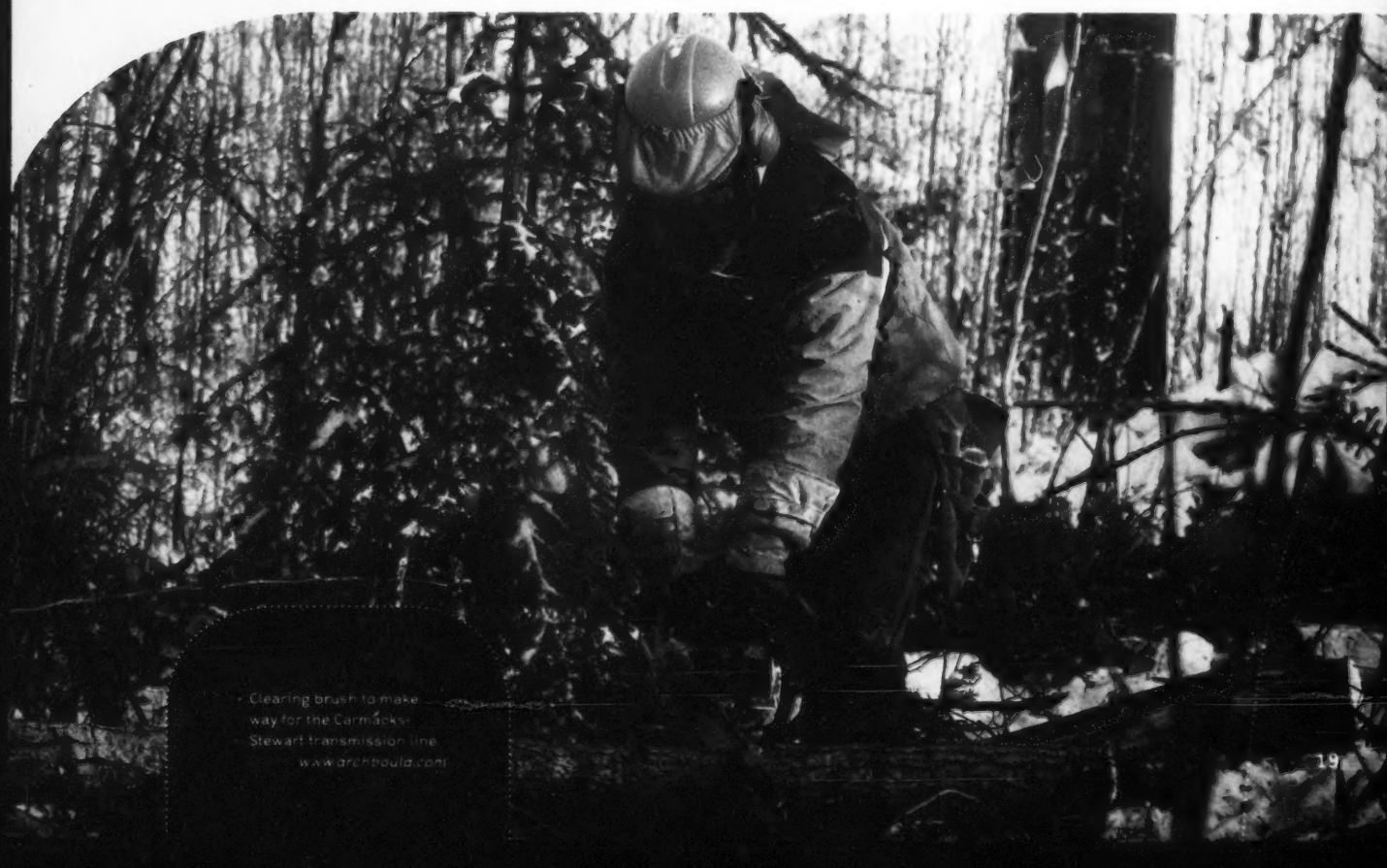
Southern Lakes Community Meetings

Our Whitehorse hydro facility uses water from the Southern Lakes system to operate. As a community service to residents of Tagish and Marsh Lake, Yukon Energy holds annual information meetings to update the public on what we expect peak summer water levels will be. The information is useful to residents because it assists them in preparing their properties for possible flooding in high water years.

In addition to holding public meetings, Yukon Energy provides weekly summer water level updates to Tagish and Marsh Lake residents via email, posters and our website and blog.

Yukon Energy Blog

Yukon Energy started a public blog in 2009. The blog's purpose is to help us explain the intricacies of the utility business and our company and give Yukoners more of an understanding of what we do, how we operate and what we stand for. The blog is also a mechanism to communicate directly with our customers, with the goal of providing them with the best service possible. The blog can be found at: **www.blog.yukonenergy.ca**



Clearing brush to make way for the Carmacks-Stewart transmission line
www.archpaula.com

SUPPORTING OUR COMMUNITIES

Whitehorse Food Bank

Yukon Energy is a fervent supporter of the Whitehorse Food Bank, a facility that assisted more than 1,600 needy Yukoners in 2009. For the second year in a row, Yukon Energy donated $10,000 to the organization. As well, Yukon Energy staff supplied food and other basic items to the food bank during the first week of school in September of this year. Our employees chose that week as a way to focus on healthy food for families with young children. No child should have to go to school hungry and Yukon Energy hopes our contribution helped in a small way during a time when families typically have extra expenses such as school supplies and children's clothing.

We greatly appreciate Yukon Energy's kind offer of financial support. The money will go toward the 535 special Christmas dinner hampers we are currently offering to our clients throughout the territory for the holiday season. I want to thank you on behalf of all the clients, volunteers and board members.

Julie Menard
Whitehorse Food Bank

Supervisor of Communications Janet Patterson and Corporate Secretary Shelley Dixon help out at the Whitehorse Food Bank.
Photo: *www.archbould.com*

A Night at the Museum

Yukon Energy partnered with the Dawson City Museum in 2009 to launch a new experiential program for students in grades four to six. The project, entitled "A Night at the Museum," allows students to experience the hardships and rewards of the Klondike Gold Rush in a more hands-on way. When the students arrive at the Dawson museum they are jettisoned back in time to 1898. They assume the character of one of the people who came to the Klondike in search of riches. Over two days, they are faced with many of the same choices that the earlier gold seekers had to make, albeit in a safer environment. The feedback from students who have participated in the program is that they have learned in a way that is much more enjoyable and long-lasting than merely sitting in a classroom.

Territorial Skills Competition

Yukon Energy joined with Skills Canada Yukon in 2009 in promoting trades and technology careers among local youth and apprentices. The partnership included financial and in-kind assistance at the Yukon Territorial Skills Competition, held in the spring in Whitehorse. The event showcased 30 trades and technologies and involved more than 1,000 participants and observers.

The 11th annual Yukon Territorial Skills Competition was the most successful the Yukon has seen to date; followed up with an unprecedented six national medals at the annual Canadian Skills Competition in P.E.I. I would like to thank Yukon Energy for your amazing dedication and support for trades and technology careers for Yukon youth.

Dan Curtis
Executive Director
Skills Canada Yukon

Financial Contributions to Other Non-Profit Groups

Yukon Energy continues our tradition of sponsoring the good work of many non-profit organizations throughout the territory. Through our corporate contributions program, we donated more than $75,000 to a variety of community groups in 2009. The list covered everything from sports and recreation, the arts, education, and health and social services.

It is with great appreciation that all the members and staff of the Dawson City Detachment thank you for your very generous donation for the Bicycle Safety Rodeo. Without the support of businesses such as yours, events like this would not be possible.

Andrea Magee
Dawson City RCMP

On behalf of the staff, Board of Directors and residents of the Mae Bachur Animal Shelter (Humane Society Yukon) I would like to thank you with the utmost appreciation for your generous donation of $5,000. This donation will be used for badly needed repairs around the building, so we can continue to provide care and refuge to the many lonely and unwanted animals that pass through our doors every year.

Tracy Smythe
Humane Society Yukon

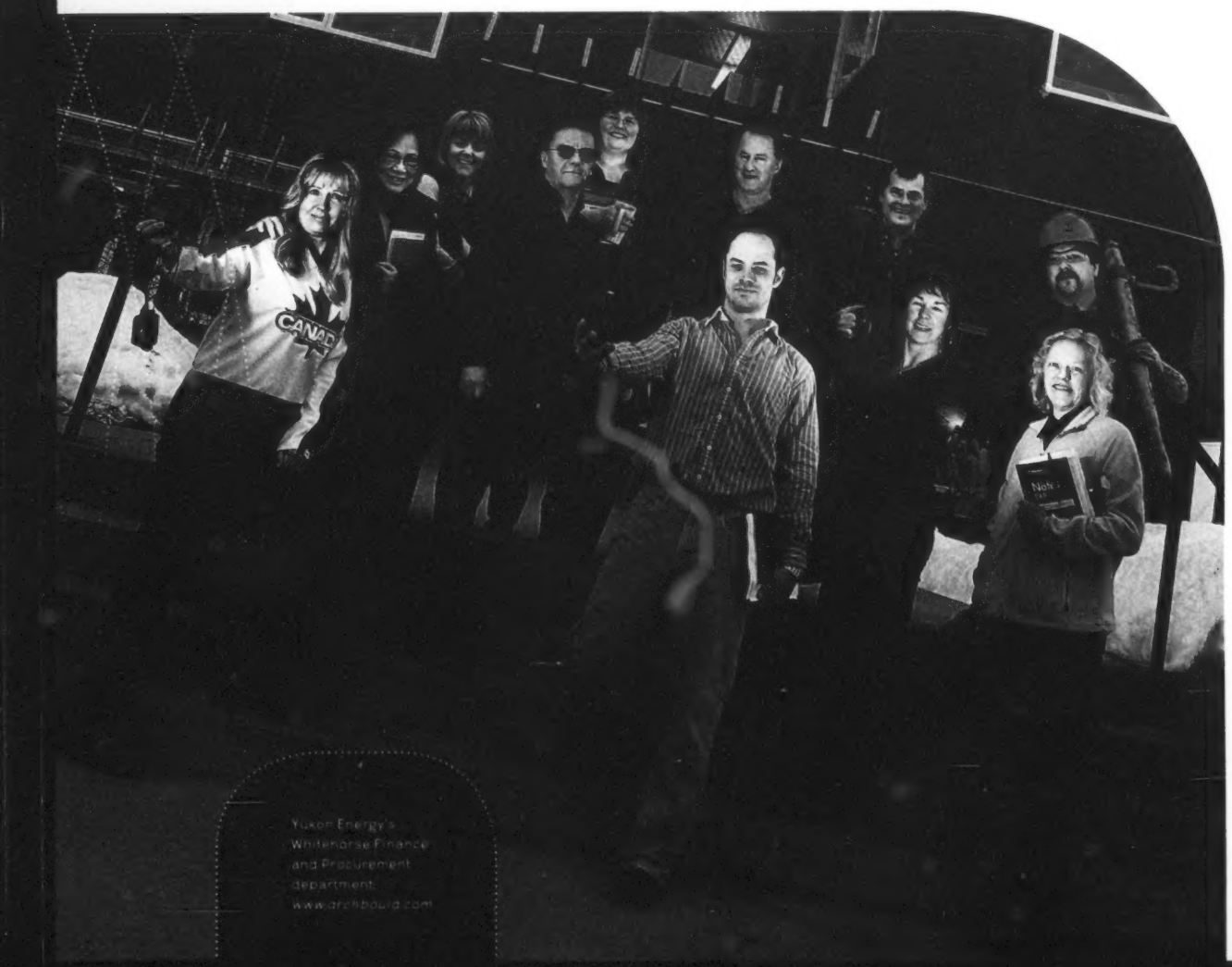
The 2009 Organizing Committee for the Run for Mom wishes to say a huge thank you for your continuous support of this annual event. Without your generosity, this event would never be the wonderful success it has become.

Val Pike
Run for Mom Co-Chair

Scholarships

Once again this year Yukon Energy offered several scholarships for pre-apprenticeship as well as post-secondary programs. In total, scholarships were given to 14 deserving post-secondary students in 2009. Congratulations to this year's recipients:

Devon Saggers
Andrew Nagano
Kyrie Nagano
Jacob Carr
Tanner Kulych
Cody Reaume
Benjamin Kitchen-Norrie
Kyrstal Profeit
Shauna Kormendy
Shannon Gervais
Joshua Carr
Coty Fraser
Neil Chambers
Jennifer Matchett



SUPPORTING OUR COMMUNITIES *cont'd*

School/Public Tours

Yukon Energy believes in the importance of educating tomorrow's generation about electrical production, energy conservation and electrical safety. To this end we offered numerous school tours in 2009 of our Whitehorse hydro plant, wind energy production site, and fishladder. One tour of our wind facilities on Haeckel Hill involved representatives from Gabon, Senegal, Cameroon, Ecuador and Alaska who were in Whitehorse for a Northern Forum General Assembly.

Yukon Sustainable Community Award

Three years ago, Yukon Energy entered into a partnership with the Association of Yukon Communities to recognize leadership in sustainable community development. Each year we present an award to an individual or group for a project that demonstrates environmental sustainability. In 2009 the award went to the Town of Faro, for the innovative work it did to improve its water and sewage system.

Swan Cam

One of the first signs of spring in the Yukon is the return of the swans and other waterfowl, as they head to their nesting grounds further north. The birds gather by the hundreds at M'Clintock Bay on Marsh Lake in the southern Yukon. The bay is the first open water in the region and offers the birds easy access to food.

Each spring Yukon Energy sets up a webcam so that people can view the waterfowl in real time via their computers. The public response has been very favourable, with people from all over the world going on-line to see the swans.

BOARD OF DIRECTORS AND CORPORATE GOVERNANCE

The Board of Directors at Yukon Energy oversees the conduct of business and supervises the President and Chief Executive Officer, who is in turn responsible for the day-to-day operations at Yukon Energy along with his Senior Management team. The Board models its approach to corporate governance on best practices in Canada and abroad, as reflected in the advice and recommendations of bodies such as the Conference Board of Canada.

Board of Director Appointments

Section 3(1) of the Yukon Development Corporation Act Regulations (OIC 1993/108) sets out the process for being appointed to the Yukon Energy board. The board of the Yukon Development Corporation (YDC) is appointed by the Yukon government and in turn the YDC board appoints the board of Yukon Energy.

Young curlers participating in the Whitehorse Curling Club's Saturday Rockers Program. Rocks provided by Yukon Energy. Photo: *Whitehorse Curling Club*

Remuneration

Remuneration for Yukon Energy board members has been benchmarked against two Conference Board of Canada reports entitled "Compensation of Boards of Directors 2003" and "Compensation of Board of Directors 2005." Yukon Energy's board remuneration has also been benchmarked against the Conference Board's report "Board Practices in Crown Corporations 2008."

The Board Chair is paid $400 per half-day meeting (four hours or less) and $800 for a full-day meeting (more than four hours). In addition, he is paid for a full day ($800) to prepare for each board meeting.

Board members receive $200 per half-day meeting, and $400 per full-day meeting, plus they receive a full day's remuneration ($400) for meeting prep time.

There are two committees that fall under Yukon Energy's board: the Audit and the Human Resources committees. Committee Chairs are paid $300 per half-day meeting and $600 per full-day meeting, with one day ($600) of prep time per committee meeting.

Committee Members receive $200 per half-day meeting and $400 per full-day meeting. They do not receive remuneration for prep time.

Code of Conduct

Yukon Energy has a Code of Conduct to which all Board members are expected to adhere. A copy of the policy can be found on our website at **www.yukonenergy.ca/about/profile/board/**

ATIPP Legislation

As of late this year, Yukon Energy is subject to the Yukon government's *Access to Information and Protection of Privacy Act*. The legislation is intended to protect the privacy of individuals who provide information to government. It also offers the public a formal method for requesting information if they are denied access to it by an organization and as such is a method used once other informal avenues have been exhausted.

Openness and transparency are important to Yukon Energy and as a result, we already provide a great deal of information on our website. More information about the Corporation can be found on the Yukon Utilities Board, Yukon Environmental and Socio-economic Assessment Board and the Yukon Water Board websites.

A Challenging Year

2009 was a challenging year for the Board of Directors at Yukon Energy. The board chair, along with three directors, resigned. Pat Irvin was appointed interim chair and the board operated throughout the second half of 2009 with only four members. We look forward to seeing a full complement on the board early in 2010.

Board members prior to June 8, 2009:
Willard Phelps (Chair)
Martin Allen
Paul Birckel
Greg Hakonson
Paul Hunter
Pat Irvin
Barb Joe
Luke Johnson

Board members after June 8, 2009:
Pat Irvin (Acting Chair)
Paul Birckel
Barb Joe
Luke Johnson

SENIOR MANAGEMENT

David Morrison
President and C.E.O.

Hector Campbell
Director, Resource Planning & Regulatory Affairs

Linda Greer
Director, Human Resources & Information Management

Lawrence Joudry
Director, Engineering Services

Ed Mollard
Chief Financial Officer

Leo Poile
Director, Operations

Shelley Dixon
Corporate Secretary

MANAGEMENT DISCUSSION AND ANALYSIS

The Management Discussion & Analysis (MD&A) reports on the financial results of the Corporation for the year ended December 31 2009. It should be read in conjunction with the audited financial statements and notes that accompany this report.

As a territorial-owned corporation, Yukon Energy's mandate is to provide for a continuous supply of electricity to meet the energy needs of consumers in Yukon. Yukon grids are not connected to other jurisdictions and Yukon Energy is the prime generator and transmitter of electrical energy in the territory.

Financial Overview

Net income from all sources in 2009 was $4.1 million (2008 – $4.3 million) which translates to a return on equity of 7.9% (2008 – 6.8%). Analysis of these results by income statement category follows.

REVENUE

Revenue from electricity sales totalled $31.5 million (2008 – $28.5 million). The largest contributing factor to the increase in sales is in the industrial customer class. This year is the first full year of sales to the high grade copper mine owned by Minto Explorations Limited in the Minto Landing area of central Yukon. During the year, the mine consumed 29.4 GWh of electricity with a peak demand of 4.2 MVA. Non-industrial customers consumed 316.3 GWh which is consistent with management estimates for the annual business plan and represents about 1.2% growth over 2008 volumes. Sales dollars increased at a slightly lower rate, reflecting rate reductions awarded by the Yukon Utilities Board in our 2008/09 Revenue Requirement Application (see Meeting Our Revenue Requirement for detailed discussion of this topic).

EXPENSES

As predicted in last year's report, the Corporation continued to experience upward pressure on expenses in 2009. Part of this is due to the focus on improved reliability that is a highlight of our current strategic direction. As well, the Corporation was successful in staffing many vacant positions beyond what was expected for budgeting purposes. Fuel consumption was also materially higher than expected as cold weather necessitated the use of diesel generation.

Far left: Drilling holes for poles on the Carmacks-Stewart line. Left: Moving poles in place during construction of the Carmacks-Stewart line.

www.archbould.com

CAPITAL

The 2009 capital was an aggressive one, both in dollars spent and volume of projects. Increased focus on reliability issues and the need to expand green energy supply were key drivers. As well, approval of funding for the Green Energy Legacy Project initiated planning and construction activities for the Carmacks to Stewart Crossing Transmission Project Stage 2 and the Mayo B Powerhouse project. These two items contributed about $8 million in capital expenditures of the total of $22 million for the year for the entire capital program.

Setting poles on the Carmacks-Stewart line. Photo: www.archbould.com

Outlook

The coming year will again be a challenging one as construction continues on the Green Energy projects and the Corporation continues to explore new clean energy supply options. As well, Yukon Energy jointly with Yukon Electrical Company Limited will appear before the Yukon Utilities Board to address the companies' joint application to review cost of service, rate design and terms and conditions of service. The Corporation is committed to operational excellence in a fiscally responsible manner.

International Financial Reporting Standards

In early 2008, the Accounting Standards Board announced that publicly accountable entities will be required to prepare financial statements in accordance with International Financial Reporting Standards ("IFRS") for annual periods in fiscal years beginning on or after January 1, 2011. As a Government Business Enterprise, Yukon Energy is included in this group and is therefore bound by this requirement.

The Corporation hired an advisor experienced with IFRS to assist management in developing and executing a conversion to ensure that differences between Canadian GAAP and IFRS that affect Yukon Energy were identified and that any required changes to accounting processes and controls (including information technology systems) could be made in a timely manner. The Corporation has a project manager leading the conversion to IFRS, who is working with the advisor and senior management to execute the plan.

Significant accounting impacts of conversion to IFRS

A number of differences between Canadian GAAP and IFRS have been identified that are expected to have a significant impact on Yukon Energy's financial statements. The Corporation is currently in the process of identifying and quantifying these differences in order to prepare an opening balance sheet under IFRS as of January 1, 2010. The main areas that are expected to have a significant impact on Yukon Energy are:

- Rate regulated assets and liabilities;
- Property, plant and equipment;
- Provisions (e.g. aasset retirement obligations);
- Employee future benefits; and
- IFRS 1 – First time adoption of International Financial Reporting Standards.

The International Accounting Standards Board is currently studying the issue of how to account for rate regulated assets and liabilities. At the current time, there is significant uncertainty whether the Board will allow companies to record these items on the balance sheet. Depending on how the Board rules, there could be a material impact to Yukon Energy's audited financial statements. Management is closely monitoring this project. Through 2010, the IFRS team will work through the affected topics and develop position papers on the expected accounting treatment under IFRS. These will be reviewed by senior management and our external auditors prior to finalization with the Board of Directors. As well, these impacts will also be reviewed by the Yukon Utilities Board at the Corporation's next rate hearing.

In summary, there are three general outcomes for the areas under study: first, there are items that we are reviewing for transition but the rules are largely settled; second, there are areas (e.g. rate regulated assets and liabilities) where the rules are fluid so we need to work out the options available at transition; and lastly, there are areas where the rules may change in the future; these will be reviewed prospectively after transition.

FINANCIAL STATEMENTS

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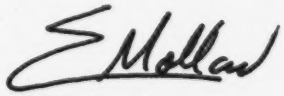
MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

Management is responsible for the preparation of the financial statements and all other financial information relating to the Corporation contained in this annual report. The financial statements have been prepared in conformity with Canadian generally accepted accounting principles using methods appropriate for the industry in which the Corporation operates and necessarily include some amounts that are based on informed judgments and best estimates of management. The financial information contained elsewhere in the annual report is consistent with that in the financial statements.

Management has established internal accounting control systems to meet its responsibilities for reliable and accurate reporting. These systems include policies and procedures, the careful selection and training of qualified personnel and an organizational structure that provides for the appropriate delegation of authority and segregation of responsibilities.

The Board of Directors, through its Audit Committee, oversees management's responsibilities for financial reporting. The Audit Committee meets regularly with management and the independent auditor to discuss auditing and financial matters to assure that management is carrying out its responsibilities and to review the financial statements. The auditors have full and free access to the Audit Committee and management.

David Morrison,
President and CEO



Ed Mollard
Chief Financial Officer

March 12, 2010

AUDITOR'S REPORT

To the Board of Directors of the Yukon Energy Corporation

I have audited the balance sheet of Yukon Energy Corporation as at December 31, 2009 and the statements of operations, comprehensive income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with the *Public Utilities Act* and regulations, the *Business Corporations Act*, and the articles and by-laws of the Corporation.

Sheila Fraser

Sheila Fraser, FCA
Auditor General of Canada

Vancouver, Canada
March 12, 2010

Yukon Energy Corporation

Balance Sheet
(in thousands of dollars)

As at December 31,	2009	2008
Assets		
Current		
Cash	$ 10,731	$ 3,254
Accounts receivable (Note 4)	9,710	5,145
Materials and supplies	2,715	2,567
Prepaid expenses	394	278
	23,550	11,244
Customer contribution financing (Note 5)	**17,424**	14,991
Deferred uninsured losses (Note 6)	**111**	556
Diesel contingency fund (Note 7)	**887**	883
Property, plant and equipment (Note 8)	**212,918**	200,173
Deferred charges (Note 9)	**13,451**	10,607
	$ 268,341	$ 238,454
Liabilities		
Current		
Accounts payable and accrued liabilities (Note 10)	$ 6,616	$ 8,853
Construction Financing (Note 11)	25,000	-
Current portion of long-term debt (Note 14)	3,783	4,721
	35,399	13,574
Faro mine dewatering deferral revenue (Note 12)	**397**	1,191
Long-term pension liability (Note 19)	**1,036**	801
Contributions in aid of construction (Note 13)	**59,316**	53,307
Regulatory provision for future removal and site restoration costs	**5,008**	5,168
Diesel contingency fund (Note 7)	**887**	883
Long-term debt (Note 14)	**105,355**	102,753
	207,398	177,677
Shareholder's Equity		
Share capital		
Authorized: Unlimited number of a single class of shares with no par value		
Issued: 3,900 shares	**39,000**	39,000
Retained earnings	**21,943**	21,777
	60,943	60,777
	$ 268,341	$ 238,454

Commitments and Contingencies (Notes 20 and 21)
The accompanying notes are an integral part of the financial statements.

Approved by the Board

_____, Chair

_____, Director

Yukon Energy Corporation

Statement of Operations, Comprehensive Income and Retained Earnings
(in thousands of dollars)

For the year ended December 31,	2009	2008
Revenue		
Sales of power (Note 15)	$ 31,547	$ 28,518
Other	866	529
	32,413	29,047
Operating expenses		
Administration (Note 16)	8,016	7,751
Operations and maintenance (Note 17)	7,597	6,760
Amortization of property, plant and equipment	5,427	5,153
Amortization of deferred charges	2,135	937
	23,175	20,601
Income from operations	**9,238**	8,446
Other income		
Allowance for funds used during construction	392	774
Amortization of capital assistance	378	229
Interest income	1,165	179
Contribution from parent	-	3,000
	1,935	4,182
Other expenses		
Interest on borrowings	6,894	5,294
Provision for uninsured losses (Note 6)	150	50
Settlement of lawsuit	-	3,000
	7,044	8,344
Net income	**4,129**	4,284
Other comprehensive income	-	-
Comprehensive income	**4,129**	4,284
Retained earnings, beginning of year	**21,777**	21,394
Dividend	**(3,963)**	(3,901)
Retained earnings, end of year	$ 21,943	$ 21,777

The accompanying notes are an integral part of the financial statements.

Yukon Energy Corporation
Statement of Cash Flows
(in thousands of dollars)

For the year ended December 31,	2009	2008
Operating activities		
Cash receipts from customers	$ 31,958	$ 28,637
Cash paid to employees and suppliers	(18,378)	(10,167)
Interest paid	(6,894)	(5,294)
Interest received	1,543	178
Cash provided by operating activities	**8,229**	13,354
Financing activities		
Repayment of long-term debt	(4,532)	(3,501)
Proceeds from short-term financing	25,000	-
Proceeds from long-term financing	-	16,081
Contributions in aid of construction	1,552	13,686
Cash provided by financing activities	**22,020**	26,266
Investing activities		
Additions to property, plant and equipment	(18,283)	(40,187)
Additions to deferred charges	(4,984)	(2,416)
Payments from long-term receivable	495	-
Cash used in investment activities	**(22,772)**	(42,603)
Net increase (decrease) in cash	**7,477**	(2,983)
Cash, beginning of year	**3,254**	6,237
Cash end of year	**$ 10,731**	$ 3,254

The accompanying notes are an integral part of the financial statements.

1. NATURE OF OPERATIONS

Yukon Energy Corporation (the "Utility") is incorporated under the *Yukon Business Corporations Act* and is a wholly-owned subsidiary of Yukon Development Corporation (YDC), a corporation owned by the Government of Yukon (YG). Yukon Energy Corporation generates, transmits, distributes and sells electrical energy in the Yukon. The Utility is not subject to income taxes.

The Utility is subject to overall regulation by the Yukon Utilities Board ("YUB") and specific regulation by the Yukon Territory Water Board. Both boards are independent from the Utility.

Rate regulation

All operations of the Utility are regulated by the YUB pursuant to the *Public Utilities Act*. There is no minimum requirement for the Utility to appear before the YUB to review rates. However, the Utility is not permitted to charge any rate for the supply of power that is not approved by an Order of the YUB. The Utility is subject to a cost of service regulatory mechanism under which the YUB establishes the revenues required (i) to recover the forecast operating costs, including depreciation and amortization, of providing the regulated service, and (ii) to provide a fair and reasonable return on utility investment in rate base. As actual operating conditions may vary from forecast, actual returns achieved can differ from approved returns.

The regulatory hearing process used to establish or change rates typically begins when the Utility makes an application for its proposed electricity rate changes over the next one or two forecast years. The YUB must ensure that its decision, which fixes electricity rates, complies with appropriate principals of rate making, all relevant legislation including the *Public Utilities Act* and directives issued by the Yukon Government through Orders-In-Council that specify how the interests of the customer and Utility are to be balanced.

The YUB typically follows a two-stage decision process. In the first stage, the total costs that the Utility will incur to provide electricity to its customers over the immediate future are reviewed and approved. The approval of these costs determines the total revenues the Utility is allowed to collect from its customers. It is the responsibility of the YUB to examine the legitimacy of three classes of costs:

- the costs to the Utility to run its operations and maintain its equipment (personnel and materials);
- the cost associated with the amortization of all capital equipment; and
- the return on rate base (the borrowing costs related to borrowing that portion of the rate base which is financed with debt plus the costs to provide a reasonable rate of return on that portion of the rate base which is financed with equity).

As well, in the first stage, the YUB reviews the addition of costs to the rate base and assesses these costs to ensure they are prudent.

In the second stage, the YUB approves how the revenue will be raised. This stage essentially determines the electricity rates for the various customer classes in the Yukon: residential, government, commercial and industrial. This process is guided mainly by requirements of Yukon Government Order-in-Council 1995/90 and can include a cost-of-service study which allocates the overall utility's cost of service to the various customer classes on the basis of appropriate costing principles.

Normally, the Utility applies for rates in advance of the applicable years. The last rate application was filed on October 6, 2008 for the 2008 and 2009 forecast years. The YUB released Order 2009-8 on September 8, 2009. This order gave the Utility direction on certain accounts for the 2008 and 2009 year. As the 2008 year was already completed the financial impact of the order related to the 2008 year was accounted for through the 2009 year. The order resulted in a decrease of $404,000 of net income in the 2009 year.

1. NATURE OF OPERATIONS - continued

Water regulation
The Yukon Territory Water Board pursuant to the *Yukon Waters Act* decides if and for how long the Utility will have a water license for the purposes of operating hydro generation stations in the Yukon. The licenses will also indicate terms and conditions for the operation of these facilities.

Capital structure
The Utility's policy is to maintain a capital structure of 60% debt and 40% equity at year end. Annual dividends are declared to the parent and typically loaned back in order to maintain this ratio.

2. SIGNIFICANT ACCOUNTING POLICIES

Financial statement presentation
The financial statements of the Utility have been prepared by management. They conform to Canadian generally accepted accounting principles ("GAAP") and take into account generally accepted methods and practices of regulated bodies. The regulatory accounting policies adopted by the Utility differ from the accounting policies otherwise expected using GAAP. In particular, the timing of the Utility's recognition of certain assets, liabilities, revenues and expenses as a result of regulation differ from that of a non-regulated enterprise. Impacts of accounting for rate regulated operations are further described in Note 3. Consequently, the significant accounting policies have been classified accordingly in the notes below:

Rate regulated accounting policies
Property, plant and equipment
Property, plant and equipment include an allowance for funds used during construction ("AFUDC") calculated at the weighted average cost of capital which was 7.61% for 2009 (2008 - 7.61%). Upon retirement or disposal, any gain or loss is charged to income in the current year for assets amortized on an individual basis, or charged to accumulated amortization for assets amortized on a pooled basis.

Faro mine dewatering deferral revenue
Faro mine dewatering deferral revenue represents amounts ordered by the YUB to be held by the Utility on behalf of ratepayers. Typically these amounts are either refunded to the customers or applied to ratepayer deficits through YUB orders.

Deferred uninsured losses
The Utility maintains a regulatory account for recording uninsured losses. An annual provision is approved by the YUB and collected through customer rates. Variances between the approved annual provision and actual costs incurred are deferred until the following general rate application or until a specific application is made to the YUB requesting recovery from or refund to customers.

Deferred charges
Deferred charges are recorded at cost less accumulated amortization.

All deferred charges are amortized to earnings on a straight-line basis over terms approved by the Yukon Utilities Board.

Cost of feasibility studies and infrastructure planning which did not result in a capital project are amortized over terms raging between five and ten years.

2. SIGNIFICANT ACCOUNTING POLICIES - continued

Deferred customer service costs are amortized over twelve years.

The deferred hearing cost account is used to record the deferral of costs associated with preparation and defense of applications to the YUB. The periods of amortization range from 2 to 45 years.

Regulatory provision for future removal and site restoration costs

The Utility maintains a provision for the future removal of property, plant and equipment and the costs of site restoration related to those assets. Per YUB Order 2005-12 no additional provision is permitted. This account provides for the costs of demolishing, dismantling, tearing down, or otherwise disposing of an asset and any site restoration costs, net of actual recoveries. This account is not used when the costs relate to an asset retirement obligation.

Deferred insurance proceeds

Deferred insurance proceeds represents a gain on fire insurance proceeds received related to a fire at the Whitehorse Rapids Generating Station in 1997. The proceeds are being amortized to income on the same basis as the replacement assets.

Diesel contingency fund

The Utility maintains an asset and an offsetting liability on behalf of ratepayers. The fund is used to reimburse costs associated with diesel generation required when there is not sufficient water for hydraulic generation to meet demand. The Utility is required to file an annual report with the YUB on the fund's activity.

Generally Accepted Accounting Principles

Revenue recognition

All revenues are recognized in the period earned. Revenue from the sale of power is recognized based on cyclical meter readings. Sales of power includes an accrual for electricity deliveries not yet billed.

Materials and supplies

Diesel fuel, materials and supplies are recorded at the lesser of average cost and net realizable value. Obsolete materials and supplies are recorded at salvage value in the period when obsolescence is determined. Major spare parts are recorded in the Utility's books as property and equipment.

Property, plant and equipment

Property, plant and equipment is stated at cost, other than the AFUDC component which is recorded under rate regulated accounting. Cost includes materials, direct labour, a proportionate share of directly attributable administration overhead, and finance charges capitalized during construction, less accumulated amortization.

Amortization is based on the straight-line method over the estimated economic life of the assets as follows:

Generation	
Hydro-electric plants	30 to 65 years
Diesel plants	25 to 45 years
Wind Turbines	30 years
Transmission	40 to 50 years
Distribution	30 to 40 years
Buildings	20 to 40 years
Transportation	9 to 31 years
Other equipment	5 to 20 years

2. SIGNIFICANT ACCOUNTING POLICIES - continued

Asset retirement obligations
On an annual basis, the Utility identifies legal obligations associated with the retirement of tangible long-lived assets. Where a reasonable estimate of the fair value of these obligations can be determined, the total retirement costs are to be recorded as a liability at fair value, with a corresponding increase to property, plant and equipment.

The Utility has determined that it has tangible long-lived assets with associated future legal obligations for retirement. As the Utility anticipates using the assets for an indefinite period, the date of removal of these assets cannot be reasonably determined, and therefore an asset retirement obligation has not been recorded. When the timing and amount of the retirement can be reasonably estimated, an asset retirement obligation and the corresponding increase in property, plant and equipment asset will be recognized.

Contributions in aid of construction
Certain property, plant and equipment additions are made with the assistance of cash contributions from customers or capital assistance from the Utility's parent or Government. These contributions are deferred upon receipt and amortized to income on the same basis as the assets to which they relate. Amortization of contributions from customers is netted on the statement of operations against amortization expense while amortization of capital assistance from the parent is disclosed separately under Other income.

Deferred water licensing costs
Costs related to obtaining water license renewals are deferred and amortized to earnings on a straight-line basis over the term of the license. The Utility operates its hydro generation facilities under three separate water licenses, with terms ranging from 17 to 25 years. These costs are treated as intangible assets and are measured at initial cost and amortized over the life of the water license.

Employee pension plan
The Utility has a defined benefit pension plan which provides for pensions based on length of service and final average earnings. Employees joining the Utility after January 1, 2002 are not eligible to participate in the defined benefit plan. The cost of pension benefits is actuarially determined using the projected benefits method, prorated on service, and reflects management's best estimates of investment returns, wage and salary increases, and age at retirement. Adjustments resulting from the plan enhancements, actuarial gains and losses, and changes in assumptions are amortized over the expected average remaining service period of active employees. Pension costs include the current cost of service, amortization of past service benefits and plan enhancements, and actuarial gains and losses. Unrecognized gains and losses are amortized on a straight-line basis over the expected average remaining service period of active employees, which is currently 12 years. The transitional asset that arose when this policy was first applied is amortized over the average remaining service period of active employees expected to receive benefits under the benefit plan as of January 1, 2000. The expected return on plan assets is based on the fair value of these assets.

Measurement uncertainty
The preparation of financial statements in accordance with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. This mainly affects revenue, accounts receivable, property, plant and equipment, asset retirement obligations, employee pension obligations and regulated assets and liabilities. Actual results could differ by a significant amount from these estimates.

2. SIGNIFICANT ACCOUNTING POLICIES - continued

Measurement uncertainty - continued
Management's estimates and assumptions, especially those affecting the reported amounts of regulated assets and the Utility's ability to recover the cost of these assets through future rates, are subject to decisions of the Yukon Utilities Board as described in Note 3.

Environmental liabilities
Environmental liabilities consist of the estimated costs related to the remediation of environmentally contaminated sites. The Utility will accrue a liability and record an expense, related to present or past activities of the Utility, when there is a legal obligation to remediate the contamination and the costs can be reasonably estimated. If the likelihood of the Utility's obligation to incur these costs is either not determinable or the costs cannot be reasonably estimated, the contingency is disclosed in the notes to the financial statements. The Utility reviews its estimates of future environmental liabilities on an ongoing basis as described in Note 21.

ACCOUNTING CHANGES
Rate regulation
Effective January 1, 2009, the Canadian Institute of Chartered Accountants (CICA) has removed the temporary exemption in Section 1100 Generally Accepted Accounting Principles, which provides relief to entities subject to rate regulation from the requirement to apply the section to the recognition and measurement of assets and liabilities arising from rate regulation. Canadian GAAP permits an entity to consult sources other than primary sources of GAAP to assist in selecting accounting policies. In particular, accounting standards published with the authority of the US Financial Accounting Standards Board (FASB). The Utility has consulted FASB and, more specifically, section SFAS 71 in regards to rate regulated accounting and the Utility meets the criteria set out by this section. The Utility will be following SFAS 71 for recording rate regulated assets and liabilities. The CICA continues to give direction on how to disclose rate regulated accounting and the Utility follows this direction. The adoption of this standard did not have an impact on the Utility's financial statements since the recognition standards under SFAS 71 are similar to previous Canadian GAAP.

Goodwill and intangible assets
Effective for years starting on or after October 1, 2008, the CICA has issued Section 3064 Goodwill and Intangible Assets which replaces Sections 3062 Goodwill and Other Intangible Assets and 3450 Research and Development. The new section is in alignment with International Financial Reporting Standards, International Accounting Standard 38 - Intangible Assets (IFRS IAS 38) with respect to the definition and initial recognition criteria of intangible assets, including internally generated intangible assets. Section 3064 reinforces the distinction between costs that should be expensed and those that should be capitalized. As a result of adopting Section 3064, the Utility classified $5,222,000 of deferred water licencing costs as an intangible.

Future Accounting Changes
On February 13, 2008, the Canadian Accounting Standards Board of Canada confirmed the adoption of International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) in place of Canadian Generally Accepted Accounting Principles (GAAP) effective January 1, 2011. The Utility is required to present its first set of published IFRS statements for the year ended December 31, 2011 with comparative information. Although IFRS uses a conceptual framework similar to Canadian GAAP, there are differences in accounting standards and the Utility is currently assessing the impact of those differences.

2. SIGNIFICANT ACCOUNTING POLICIES - continued

Future Accounting Changes

As a first-time adopter of IFRS, the Utility is required to apply IFRS 1 "First Time adoption of International Financial Reporting Standards". A number of exemptions are available under this Standard which the Utility is currently evaluating. The more significant exemptions include: recognizing through opening retained earnings all cumulative actuarial gains and losses on employee benefit plans, electing to use fair value at the transition date as deemed cost for capital assets in certain circumstances and the opportunity to apply decommissioning liabilities prospectively.

To facilitate the conversion process, the Utility has appointed an external advisor and assembled a core project team. Project planning started with a high level diagnostic review of significant differences between IFRS and Canadian GAAP. The second phase of the plan is the detailed analysis and design. This phase involves the detailed assessment, from an accounting, reporting and business perspective of the changes that will be caused by the conversion to IFRS. While all the effects of IFRS have not been fully determined, the Utility has identified a number of key areas where it is likely to be impacted by changes in accounting policy. Areas with significant differences that will impact the Utility include: Regulatory Accounting, Property, Plant & Equipment, Employee Benefits, impairment of assets and the overall presentation of the financial statements.

3. FINANCIAL STATEMENT EFFECTS OF RATE REGULATION

Certain items in these financial statements are accounted for differently than they would be in the absence of rate regulation.

Where regulatory decisions dictate, the Utility defers certain costs or revenues as assets or liabilities on the balance sheet and records them as expenses or revenues on the statement of operations as it collects or refunds amounts through future customer rates. Any adjustments to these deferred amounts are recognized in income in the period that the YUB renders a subsequent decision.

Regulatory assets represent future revenues associated with certain costs, incurred in the current period or in prior periods, which are expected to be recovered from customers in future periods through the rate-setting process. Regulatory liabilities represent future reductions or limitations of increases in revenues associated with amounts that are expected to be refunded to customers as a result of the rate-setting process.

In the absence of rate regulation the Utility's net income would have decreased by $4,199,000 in 2009 (2008 - decreased by $3,016,000). The following describes each of the circumstances in which rate regulation affects the accounting for a transaction or event:

	2009	2008	Expected remaining recovery/ settlement (years)	For 2009: In the absence of Rate Regulation the Utility's Net Income would have increased (decreased) by:
Regulatory assets:				
Deferred charges (Note 9), net book value				
Feasibility studies and infrastructure planning	$ 6,455	$ 2,943	5 to 10	$ (3,512)
Deferred customer service costs	700	764	11	64
Hearing costs	1,074	1,348	2 to 45	274
Dam safety review	-	13	0	13
Deferred uninsured losses (Note 6)	111	556	Indeterminate	32
Diesel contingency fund (Note 7)	887	883	Indeterminate	(4)
	9,227	6,507		(3,133)

3. FINANCIAL STATEMENT EFFECTS OF RATE REGULATION - continued

Regulatory liabilities:				
Faro mine dewatering deferral revenue (Note 12)	397	1,191	Indeterminate	(381)
Deferred insurance proceeds (Note 13)	7,086	7,356	26	(270)
Regulatory provision for future removal and site restoration costs	5,008	5,168	Indeterminate	(160)
Diesel contingency fund (Note 7)	887	883	Indeterminate	4
	13,378	14,598		$ (807)
Net impact of assets and liabilities	$ (4,151)	$ (8,091)		$ (3,940)
Impact of other items through income statement				
AFUDC				(392)
Fuel Price Adjustment				133
Total effect				$ (4,199)

Regulatory assets

(a) Deferred charges

Deferred charges represent costs which have been deferred and are being amortized over various periods. In the absence of rate regulation, GAAP would require such costs to be recognized as expenses in the year incurred.

Feasibility studies and infrastructure planning

The Utility undertakes certain projects whose objective is to determine the feasibility of a range of solutions. While in progress, the costs of these feasibility projects are included in these accounts. As well, if the feasibility project determines there is not a viable solution, these projects are closed out and amortized to income over a prescribed number of years. These values are also included in the feasibility accounts. The cost of feasibility projects that result in a capital project are transferred to the cost of the resultant project. In the absence of rate regulation, expenses in 2009 would have been $3,512,000 higher. (2008 - $624,000 higher expenses)

Deferred customer service costs

The costs associated with negotiating terms of service with a new industrial customer. In the absence of rate regulation, expenses in 2009 would have been $64,000 lower. (2008 - $764,000 higher expenses)

Hearing costs

These costs are associated with the YUB regulatory proceedings that were held in 2009 and the Resource Plan proceedings that were held in 2007. The costs consist primarily of legal and consulting costs incurred by the Utility and reimbursement of YUB and intervenor costs. YUB Order 2009-8 directed the Utility to defer and amortize the hearing costs over two years and the Resource Plan Proceeding costs over ten years. In the absence of rate regulation, expenses in 2009 would have been $274,000 lower. (2008 - $277,000 higher expenses)

Dam safety review

The Utility has a program of conducting reviews of the safety of its dams in accordance with standards set by the Canadian Dam Association. External consultants are hired every five years with intermittent costs incurred in the interim periods. These costs are amortized over five years as approved by the Utility's 1991/92 General Rate Application and reconfirmed in YUB Order 2005-12 and YUB Order 2009-8. In the absence of rate regulation, expenses in 2009 would have been $13,000 lower. (2008 - $14,000 lower expenses)

3. FINANCIAL STATEMENT EFFECTS OF RATE REGULATION - continued

(b) Diesel contingency fund
The Diesel contingency fund ("DCF") was established by YUB Order 1996-6 through the Negotiated Settlement process. The DCF is administered by the Utility on behalf of the YUB, and as such is recorded as an asset and a liability. The DCF attracts interest based upon short-term bond rates in which the Utility invests the funds. Any negative balance attracts interest at the lowest short-term borrowing rate available to the Utility through its line of credit.

Pursuant to YUB order 1996-6, the Utility from time to time is required to transfer amounts to or from the fund it maintains on behalf of ratepayers to reimburse the Utility for costs associated with diesel generation required when there is not sufficient water for hydraulic generation to meet demand. In the absence of regulation, GAAP would have required any interest earned or incurred to be included in the Utility's net income in the year in which they occurred. In the absence of rate regulation, the Utility's income and expenses in 2009 would have been higher by $4,000 from interest earned on the DCF. (2008 - $27,000 higher income and expenses)

(c) Deferred uninsured losses
The YUB has approved the use of a provision for uninsured damages and injuries as a means of self-insurance. The provision is maintained through an annual provision approved by the YUB. In order to eliminate the deficit rate payers owed as a result of uninsured losses, the Utility was directed by YUB Order 2009-8 to transfer $413,000 of the Faro mine dewatering deferral revenue account to the Deferred uninsured losses account. In addition the YUB approved a provision of $150,000 relating to 2008 and 2009 and an annual provision of $100,000 for every year thereafter. In the absence of rate regulation, GAAP would require costs to be expensed as incurred and, therefore, expenses in 2009 would have been lower by $32,000 (2008 - $93,000 higher expenses). The period over which the provision will be recovered is dependent on the magnitude of future actual losses incurred and cannot be estimated.

Regulatory liabilities
(d) Faro mine dewatering deferral revenue
As directed by YUB Order 1998-5, all revenues, less any incremental costs to provide the service, collected from the Faro Mine under Rate Schedule 34 (Faro Mine Firm Shutdown Power) prior to December 31, 2004, were deferred for the benefit of ratepayers pending direction from the YUB. YUB Order 2005-12 confirmed that effective January 1, 2005 the Faro minesite would be charged the General Service-Government rate so there will be no further increases to Faro mine dewatering deferral revenue account. YUB Order 2009-8 set the approved 2008 and 2009 revenue shortfall at $381,000. In the absence of rate regulation, GAAP would have required only the recognition of actual sales earned during the year. As a result, the Utility's sales of power in 2009 would have been $381,000 lower. YUB Order 2009-8 also approved the Utility to offset $413,000 from this account to the Deferred uninsured losses account which did not have an effect on the income statement.

The period over which the remaining liability will be recognized as revenue for the benefit of ratepayers is dependent on future YUB Board orders and, therefore, cannot be estimated.

(e) Deferred insurance proceeds
The deferred insurance proceeds relates to a fire at the Whitehorse Rapids Generating Station in 1997 which, pursuant to YUB Order 2000-3, is being amortized to income at the same rate as the replacement assets. In the absence of rate regulation, GAAP would have required the gain to have been completely recognized as income in the year received. As a result, the Utility's net income in 2009 would have been lower by the amount of the amortization of $270,000 (2008 - $270,000 lower).

3. **FINANCIAL STATEMENT EFFECTS OF RATE REGULATION - continued**

(f) Regulatory provision for future removal and site restoration costs

Pursuant to amortization rates approved by the YUB in the Utility's previous general rate applications the Utility has maintained a reserve for future removal and site restoration costs. As a result of the YUB Order 2005-12, effective January 1 2005, the Utility is required to maintain this reserve as a regulatory provision in addition to any asset retirement obligations. The provision is not to exceed the cumulative value of the provision at December 31, 2004 of $5,757,000. YUB Order 2005-12 also directs the Utility to notify interveners and interested parties when the balance of the provision reaches $2,000,000.

Costs of dismantling capital assets, including site remediation, will be applied to this regulatory liability if they do not otherwise relate to an asset retirement obligation. In a non-regulated industry, future removal and site restoration costs would be limited to asset retirement obligations, and the removal and site restoration costs would be expensed in the year incurred if they did not relate to an asset retirement obligation. In the absence of rate regulation, the Utility's 2009 expense would have been higher by the amount of actual removal and site restoration costs incurred in the year of $160,000 (2008 expenses - $73,000 higher).

The period over which the provision will be settled is dependent on the future costs of demolishing, dismantling, tearing down, or otherwise disposing of the asset, and site restoration net of actual recoveries, and is, therefore, indeterminate.

(g) Fuel price adjustment

OIC 1998/90 directs the YUB to permit the Utility to adjust electricity rates to reflect fluctuations in the price of diesel fuel. The amount by which actual fuel prices vary from the YUB approved rates is deferred and recovered from or refunded to customers in a future period.

In the absence of rate regulation, GAAP would require that actual diesel fuel expenses be included in the operating result of the year that they are incurred. In 2009, fuel expenses were deferred and consequently lower by $133,000 (2008 fuel expense higher by $179,000).

Other items affected by rate regulation

The Utility is required under the *Public Utilities Act* to obtain prior approval from the YUB before making changes to depreciation, amortization, and depletion rates and methods. The YUB permits an allowance for funds used during construction ("AFUDC"), based on the Utility's weighted average cost of capital, to be included in the rate base. AFUDC is also included in the cost of property, plant and equipment for financial reporting purposes, and is amortized over future periods as part of the total cost of the related asset, based on the expectation that amortization expense, including the AFUDC component, will be approved for inclusion in future customer rates. Since AFUDC includes not only a cost of debt component, but also a cost-of-equity component, it exceeds the amount allowed to be capitalized in similar circumstances in the absence of rate regulation. In the absence of rate regulation, revenue would be $392,000 lower (2008 - $774,000 lower).

It is the Utility's policy to charge to income, in the year of disposal, any gain or loss upon retirement or disposal of land or vehicles. As approved by the YUB, the gain or loss on all other property, plant and equipment is deferred and amortized over the expected life of the remaining pool of similar assets. In the absence of rate regulation, GAAP would require the gain or loss on the disposal or retirement of all property, plant and equipment to be included in income in the period of disposal or retirement.

The Utility's policy of maintaining a constant capital structure of 60% debt and 40% equity is reviewed by the YUB as part of the rate-setting process and in the determination of the return on rate base. In the absence of rate regulation, the Utility would determine the appropriate capital structure solely based on decisions by the Board of Directors of the Utility, which may differ from the current policy.

3. FINANCIAL STATEMENT EFFECTS OF RATE REGULATION - continued

Other items affected by rate regulation - continued

All amounts maintained as regulatory assets and liabilities are expected to be recovered or settled over the periods noted above. However, there are risks and uncertainties associated with the recovery or settlement related to potential future decisions of the regulator which could result in material adjustments to these assets and liabilities.

4. ACCOUNTS RECEIVABLE

	2009	2008
Green Infrastructure Funding (Note 13)	$ 3,200	$ -
Wholesale energy sales	2,761	2,773
Retail energy sales	1,537	1,179
Customer Contribution Financing (Note 5)	-	1,009
Other	2,212	184
	$ 9,710	$ 5,145

5. CUSTOMER CONTRIBUTION FINANCING

Under the terms of a Power Purchase Agreement with an industrial customer, the Utility has agreed to finance the cost of transmission assets built to serve the customer. Initial financing started November 22, 2008, the date the transmission line came into service. The financing is structured in two parts: a $7.2 million contribution towards the cost of the main line expansion and $10.8 million contribution for the cost of the 27 km spur line to the mine for a total of $18 million. The customer is obligated to make interest only payments on the outstanding debt until 2012. From 2012 to 2017, the customer is obligated to make blended principal and interest payments such that the debt is extinguished by November 2017. This repayment schedule is subject to verification of mine life based on assessment of available reserves. At the direction of the YUB, the collection risk on this instrument is borne by YDC. Accordingly, YDC has loaned cash in an amount equal to this receivable at substantially the same terms. The Utility has recorded this loan as long term debt (see Note 14) and, if the industrial customer defaults on their debt, the Utility is released from the obligation to re-pay YDC.

6. DEFERRED UNINSURED LOSSES

	2009	2008
Opening balance	$ 556	$ 463
Provision	(150)	(50)
Transfer from Regulatory liabilities (Note 12)	(413)	-
Losses incurred		
Asset replacements	118	143
Closing balance	**$ 111**	$ 556

YUB Order 2009-8 directed that $413,000 be transferred from the Faro mine dewatering revenue account to the Deferred uninsured losses account. This same order directed the Utility to charge $100,000 to this provision starting in 2008. As the order was issued after the 2008 accounts were closed, the increase in the provision for both years was recognized in income in the 2009 year.

7. DIESEL CONTINGENCY FUND

	2009	2008
Opening balance	$ 883	$ 856
Interest	4	27
Closing balance	$ 887	$ 883

The annual return on investment for 2009 was 0.45% (2008 - 3.43%). The fair market value of these investments is equal to the carrying amount due to the short term maturity of the investments.

8. PROPERTY, PLANT AND EQUIPMENT

	Cost	Accumulated Amortization	2009 Net book Value	2008 Net book Value
Generation	$ 142,233	$ 54,554	$ 87,679	$ 87,605
Transmission	84,426	14,759	69,667	70,755
Distribution	26,982	7,028	19,954	20,587
Buildings and other equipment	18,238	6,855	11,383	11,028
Transportation	3,369	1,148	2,221	1,897
Land and land rights	1,116	-	1,116	1,117
Construction-in-progress	20,898	-	20,898	7,184
	$ 297,262	$ 84,344	$ 212,918	$ 200,173

9. DEFERRED CHARGES

	Cost	Accumulated Amortization	2009 Net book Value	2008 Net book Value
Deferred water licensing costs	$ 9,195	$ 3,973	$ 5,222	$ 5,539
Feasibility studies and infrastructure planning	8,274	1,819	6,455	2,943
Hearing costs	3,065	1,991	1,074	1,348
Deferred customer service costs	769	69	700	764
Dam safety review	213	213	-	13
	$ 21,516	$ 8,065	$ 13,451	$ 10,607

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2009	2008
Trade payables	$ 5,945	$ 8,277
Employee compensation	281	414
Other	390	162
	$ 6,616	$ 8,853

11. CONSTRUCTION FINANCING

	2009	2008
Financing	$ 25,000	$ -
	$ 25,000	$ -

In December 2009 the Utility received interim funding from the Yukon Government to assist with development of the Legacy Project for Stage 2 of the Carmacks-Stewart Transmission Line and the Mayo Hydro Enhancement Project. This funding is for an initial term of six months with an option to extend for an addition three months. Interest on this funding is based on the Bankers Acceptance rate plus 70 basis points. Interest is payable at the maturity of each term.

12. FARO MINE DEWATERING DEFERRAL REVENUE

	2009	2008
Faro mine dewatering deferral revenue account:		
Opening balance	$ 1,191	$ 1,191
Applied to revenue shortfall per YUB Order 2009-10	(381)	-
Offset to Deferred uninsured losses account per YUB Order 2009-8 (Note 6)	(413)	-
Closing balance	$ 397	$ 1,191

13. CONTRIBUTIONS IN AID OF CONSTRUCTION

	Gross	Accumulated Amortization	2009 Net	2008 Net
Contributions from Canada (Note 4)	$ 3,200	$ -	$ 3,200	$ -
Capital assistance from parent since 1998	15,812	2,098	13,714	14,092
Contributions from customers since 1998	36,657	2,049	34,608	31,108
Pre-1998 contributions	1,739	1,031	708	751
Deferred insurance proceeds	11,602	4,516	7,086	7,356
	$ 69,010	$ 9,694	$ 59,316	$ 53,307

The Utility has entered into a contribution agreement with the Government of Canada for Green Infrastructure Funding for the Carmacks to Stewart Transmission Line and the Mayo B Hydro Enhancement projects. The Utility is entitled to reimbursement of 50% of eligible costs to a maximum of $71 million during the period May 2009 to March 2012 subject to meeting structured reporting requirements.

The sources of contributions received prior to 1998 were not recorded separately.

14. LONG-TERM DEBT

The Utility's long-term debt is summarized as follows:

	2009	2008
Yukon Development Corporation		
$40,000,000 flexible term note bearing interest at 7% repayable in annual installments of up to $1,000,000 principal, plus accrued interest and secured by mortgage over specific assets	$ 25,111	$ 26,066
$27,313,661 term note bearing interest at 5.88%, payable monthly, and semi-annual principal payments commencing June 30, 2007 and ending December 31, 2023. The note is unsecured.	22,494	24,101
$18,000,000 flexible term note related to the Mayo to Dawson Transmission Line project bearing interest at 6.55% repayable in annual installments of $450,000 principal, plus accrued interest with the balance of $307,000 due December 31, 2043. The note is unsecured.	15,157	15,607
$18,000,000 term note related to the Transmission Line Construction Financing, bearing interest at 6.50% repayable in variable monthly installments due December 2017	17,424	16,000
Unsecured advance bearing interest at 6.03%, due one year after demand	3,649	3,649
Unsecured advance bearing interest at 5.403%, due one year after demand	2,839	2,839
Unsecured advance bearing interest at 5.34%, due one year after demand	3,583	3,583
Unsecured advance bearing interest at 5.28%, due one year after demand	4,251	4,251
Unsecured advance bearing interest at 4.65%, due one year after demand	3,901	3,901
Unsecured advance bearing interest at 5.28%, due one year after demand	3,963	-
TD Canada Trust		
$12,400,000 term note bearing interest at 7.81% payable in monthly installments of $102,000 interest and principal, with the balance due September 30, 2011. The note is guaranteed by the Yukon Government.	6,472	7,164
Carmacks Stewart First Nation Liability		
Long-term liability payable to several First Nations related to the building of the Carmacks Stewart Transmission Line. These are non interest bearing, repayable in varying installments, due in 2028	294	313
	109,138	107,474
Less current portion	3,783	4,721
	$ 105,355	$ 102,753

14. LONG-TERM DEBT - continued

$40,000,000 Flexible term note

The terms of the flexible term note provide for payments of principal and interest to be deferred and abated, respectively, if power sales on the Whitehorse-Aishihik-Faro electrical power distribution system are less than specified amounts. After adjusting for abated interest, the effective interest rate on this instrument for 2009 is 6.94% (2008 - 4.92%).

Mayo to Dawson Transmission Line Financing

The Utility obtained financing from YDC in the amount of $18 million for a transmission line from the Mayo hydro generating station to Dawson City. The financing was obtained effective September 6, 2003, the date the transmission line came into service. The financing was made under terms that ensure that ratepayers are not paying more in any year than they would otherwise have paid if the transmission line had not been built and Dawson City had continued to be served by diesel generation. The maximum interest payable on the note in any year is determined by a formula which compares the costs and benefits of operating the line. For example, the costs include depreciation, return on equity, and operating and maintenance expense. The benefits include diesel fuel costs not incurred. As per the agreement, total costs, including interest, cannot exceed the benefits.

If the costs of operating the line exceed the benefits in any year, YDC will pay the Utility the difference on or before March 31 of the next calendar year.

In 2009, benefits exceeded costs, which resulted in $1,022,00 in interest paid to YDC. (In 2008, benefits exceeded costs, which resulted in $1,052,000 in interest paid to YDC).

Unsecured Advances

The Utility declared a dividend to YDC in the amount of $3,963,000 (2008 - $3,901,000) and this was loaned back to the Utility at an interest rate of 5.28% in order to maintain the capital structure. This advance is unsecured and due one year after demand.

Transmission Line Construction Financing

The Utility obtained financing from YDC in the amount of $18 million for an industrial customer's Capital Cost Contribution for the transmission line from Carmacks to Minto Landing and Spur line to the customer. Financing of $16 million was obtained effective November 22, 2008, the date the transmission line came into service and an additional $1.9 million was obtained in 2009 after final projects costs were known. The financing was made under terms that ensure that ratepayers are not paying more in any year than they would otherwise have paid if the transmission line had not been built. The Utility is obliged to repay the loan when payments are received from the customer under the Power Purchase Agreement. YDC assumes all the risk involved in this debt.

Long -term debt repayment

Scheduled repayments for all long-term debt are as follows:

2010	3,809
2011	3,868
2012	4,181
2013	7,071
2014	7,352
Thereafter	82,857
	$ 109,138

14. LONG-TERM DEBT - continued

Fair value

Fair value at December 31, 2009 of $118 million (2008 - $112 million) for all long-term debt including current portions was estimated using discounted cash flows based on an estimate of the Utility's current borrowing rate for similar borrowing arrangements.

15. SALES OF POWER

	2009	2008
Wholesale	$ 22,291	$ 22,999
Industrial	3,191	329
General Service	3,007	2,804
Residential	1,535	1,523
Secondary Sales	1,442	777
Sentinal and Street Lights	81	86
	$ 31,547	$ 28,518

16. ADMINISTRATION EXPENSES

	2009	2008
Wages and benefits	$ 3,723	$ 3,554
General office	1,132	1,312
Insurance and taxes	1,075	1,016
Information systems	776	456
Training, recruitment and development	539	604
Intercompany services	302	162
Environmental	237	130
Board of Directors	113	256
Regulatory loss	65	196
Material management and contracting	54	65
	$ 8,016	$ 7,751

17. OPERATIONS AND MAINTENANCE EXPENSES

	2009	2008
Wages and benefits	$ 3,939	$ 3,735
Maintenance		
- building and vehicle	1,002	882
- lines and substations	869	869
- hydro, diesel and wind	762	823
Fuel	870	291
Water level measurement	155	160
	$ 7,597	$ 6,760

18. RELATED PARTY TRANSACTIONS

The Utility is related in terms of common ownership to all Government of Yukon departments, agencies and Crown Corporations. Transactions are entered into in the normal course of operations with these entities. All transactions are recorded at the rates set out by the YUB.

Revenue from related parties is included in other revenue on the statement of operations. Rate Stabilization Fund revenues are received from YDC in accordance with terms established by YG which established the fund to protect certain ratepayers by minimizing the impact of rate increases. These revenues are included in the sales of power on the statement of operations.

The following table summarizes the Utility's related party transactions for the year:

	2009	2008
Revenue		
Sales of service to YDC	$ 301	$ 161
Program cost reimbursement from YG	92	92
Rate subsidy received from YDC	226	206
Operating expenses		
Payment of interest on borrowings from YDC	$ 6,299	$ 4,711
Payment for financial information system usage to YDC	147	177
Other income		
Contribution from YDC for settlement of lawsuit	$ -	3,000
Other receipts		
Capital Contributions from YDC for Carmacks Stewart Transmission Line	$ -	$ 2,957
Capital Contributions from YG for Carmacks Stewart Transmission Line	-	10,000
Capital Contributions from YDC for Aishihik Hydro third turbine	2,833	750
Advance from YG	25,000	-
Other payments		
Payment of dividend to YDC	$ 3,963	$ 3,901

At the end of the year, the amounts receivable from and due to related entities are as follows:

	2009	2008
YDC		
Accounts receivable	$ 2,045	$ 245
Accounts payable	$ 109	$ 338
Construction Financing	$ 25,000	$ -
Current portion of long-term debt	$ 3,035	$ 4,003
Long-term debt	$ 99,074	$ 95,820
YG		
Accounts receivable	$ 210	$ 92

These balances are non-interest bearing and payable on demand except for long-term debt (Note 14).

19. PENSION COSTS AND OBLIGATIONS

The Utility sponsors a defined benefit pension plan which provides benefits based on length of service and final average earnings as follows:

- years of pensionable service;
- the average annual earnings during any five consecutive years of pensionable service where earnings are the highest; and
- the average of the years maximum pensionable earnings (Canada Pension Plan) for the same five year period.

Annual cost of living increases to a maximum of 3.0% are provided to pensioners. The Utility contributes amounts as recommended by an independent actuary.

Employees make contributions to the plan as follows:

- 3.5% of earnings up to the year's maximum pensionable earnings; and
- 5.0% of earnings in excess of the year's maximum pensionable earnings to a maximum of $2,500 per year.

The Utility has contracted with external organizations to provide services of trustee, administrator and investment manager for the pension plan.

An actuarial valuation for funding purposes was performed as of January 1, 2007 by the consulting actuarial firm AON Consulting Inc. The next valuation for funding purposes will be conducted as of January 1, 2010. The pension costs and obligations were based on the data used in the January 1, 2007 funding valuation and have been projected to December 31, 2009 in accordance with generally accepted actuarial standards.

The fair value of the plan assets is based on market values as reported by Group Retirement Services, the plan's custodian as at December 31, 2009. The plan assets are invested in a pooled balanced fund. The distribution of assets by major asset class is as follows:

	December 31, 2009	December 31, 2008
Equities	51.4%	45.1%
Fixed Income Securities	39.5%	45.0%
Real Estate	9.1%	9.9%

Information about the Utility's defined benefit plan as at December 31, in aggregate, is as follows:

	2009	2008
Discount rate-accrued benefit obligation	6.25%	6.25%
Discount rate-benefit costs	6.25%	5.25%
Expected long-term rate of return on plan assets	6.50%	6.50%
Assumed rate of salary escalation	3.00%	3.50%
Assumed rate of pension indexing	2.50%	2.50%
Expected average remaining service period of active employees	12 years	12 years

19. PENSION COSTS AND OBLIGATIONS - continued

Benefit obligation determined by actuarial valuation	$	10,491	$	9,583
Fair value of plan assets		7,751		6,589
Plan deficit	$	2,740	$	2,994
Unrecognised amount:				
- transitional asset		135		152
- net actuarial losses		(1,703)		(2,213)
Accrued benefit liability	$	1,172	$	933
Current portion of accrued benefit liability	$	136	$	132
Long-term portion of accrued benefit liability		1,036		801
Accrued benefit liability	$	1,172	$	933
Pension expense	$	584	$	523
Employer contributions	$	345	$	394
Employee contributions	$	112	$	123
Benefits paid	$	132	$	154

The accrued benefit liability has been recorded on the Utility's books of account and its current portion of $136,000 (2008 - $132,000) is included in accounts payable and accrued liabilities on the balance sheet.

Employees joining the Utility after January 1, 2002 are not eligible to participate in the defined benefit plan. The Utility makes contributions to a Registered Retirement Savings Plan ("RRSP") on behalf of these employees and employees hired before January 1, 2002 who belonged to the defined benefit plan and elected to opt out of that plan. The RRSP is a defined contribution plan. The costs recognized for the period are equal to the Utility's contribution to the plan. During 2009, these were $256,000 (2008 - $220,000).

Total cash payments for employee future benefits for 2009, consisting of cash contributed by the Utility to its funded defined benefit pension plan and cash contributed directly to the RRSP were $601,000 (2008 - $614,000).

As at December 31, 2009, the Utility's defined benefit pension plan had 36 members (2008 - 36), and the RRSP had 49 members (2008 - 45).

20. COMMITMENTS

Aishihik water licence

The Yukon Territory Water Board issued a water use license in 2002, valid until December 31, 2019, for the Utility's Aishihik Lake facility. In addition to maintaining a minimum and maximum water level, this license commits the Utility to meet a number of future requirements including:

a) annual payments of $25,000 until 2011 for the purpose of construction and maintenance of a heritage camp and delivery of programs at the camp;
b) Heritage Mitigation Plan. The Utility did not incur expenditures in 2009 on heritage projects and the amount to be expended in the future has not yet been determined; and
c) annual fish monitoring programs.

20. COMMITMENTS - continued

Fish monitoring programs are also required under an authorization provided by the federal government Department of Fisheries and Oceans, which is valid until December 31, 2019. The costs of meeting these requirements are accounted for as water licence costs in the year they are paid.

Diesel generator purchase
As part of the Power Purchase Agreement (PPA) with Minto Explorations Limited (MEL), the Utility agreed upon commencement of service to the mine and subject to other conditions to pay MEL $2,240,000 for the assignment of four leased diesel generators with a combined continuous rating of 6.4 MW. As at December 31 2009, all conditions had not been met and it cannot be estimated at this time when all conditions will be met.

Contractual obligations
The Utility has entered into contracts to purchase products or services for which the liability has not been incurred as at December 31 2009 as the product or service had not been provided. The committment at year end are for: Construction $2,323,000; Maintenance $898,000; Engineering $2,410,000 and Consulting $1,139,000.

21. ENVIRONMENTAL LIABILITIES

The Utility's activities are subject to various federal and territorial laws and regulations governing the protection of the environment or to minimize any adverse impact thereon. The Utility conducts its operations so as to protect public health and the environment and believes its operations are materially in compliance with all applicable laws and regulations.

The Utility has conducted environmental site assessments at all its diesel plant sites. At sites where environmental contamination was found and a legal obligation to remediate the site existed, the Utility has conducted a full remediation.

As at December 31, 2009 no new environmental liabilities, for which a legal obligation exists to remediate, have been identified by the Utility. The Utility will continue to use its Environmental Management System to monitor and assess previous and potential existing environmental liabilities on an ongoing basis.

22. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

At December 31, 2009, the Utility's financial instruments included cash, accounts receivable, long-term receivable, accounts payable and accrued liabilities and long term debt. The fair value of cash, accounts receivable, accounts payable and accrued liabilites approximate their carrying value due to the immediate or short-term maturity of these financial instruments.

The long-term receivable related to the Transmission Line Construction Financing is accounted for at amortized cost using the effective interest rate method. The fair value of the long-term receivable as at December 31, 2009 is approximately $18.7 million.

The long-term debt is accounted for at amortized cost using the effective interest rate method. The fair value of the long-term debt is estimated by discounting the future cash flows using current rates for debt instruments subject to similar risks and maturities as disclosed in Note 14.

The Utility also has access to a $10 million line of credit. The account accrues interest on withdrawals at prime rate. The facility was not drawn on at year-end.

22. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS - continued

Interest rate risk
Interest rate risk is the risk that future cash flows or fair value of a financial instrument will fluctuate due to changes in market interest rates. The Utility is not exposed to significant interest rate risk due to its long-term debt having fixed interest rates.

Credit risk
Credit risk is the risk of failure of a debtor or counterparty to honour its contractual obligations resulting in financial loss to the Utility. The Utility's credit risk is minimal in that its primary customer is a regulated utility.

Liquidity risk
Liquidity risk is the risk that the Utility will not be able to meet its financial obligations as they fall due. The Utility's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Utility's reputation.

The Utility does not engage in hedging transactions.

23. CAPITAL MANAGEMENT

The Utility's capital is its equity which is comprised of share capital and accumulated funds in the form of retained earnings. The Utility manages its equity by managing revenues, expenses, assets and liabilities to ensure the Utility effectively achieves its objectives while remaining a going concern.

The Utility monitors its capital on the basis of the ratio of total debt to total capitalization. Debt is calculated as total borrowings, which is comprised of long-term debt, including the portion of long-term debt due within one year. Total capitalization is calculated as total debt plus total shareholder's equity as shown on the balance sheet. The Utility maintains a balance in retained earnings as an indicator of the Utility's equity position.

The Utility has a policy which defines it's capital structure at a ratio of 60% debt and 40% equity. This policy has been reviewed and accepted by the YUB.

The long-term debt with YDC of $17.424 million that relates to the Transmission Line Construction Financing is not included in this calculation. This long-term debt is linked with the long-term receivable from the industrial customer. The Utility bears no risk in holding this debt so the amount was removed from this calculation.

The table below summarizes the Utility's debt to total capitalization position:

(thousands of dollars)	2009	2008
Long-term debt due within one year	$ 3,783	$ 4,721
Long-term debt	105,355	102,753
Total Debt	109,138	107,474
Less debt related to the Transmission Line Construction Financing (Note 14)	17,424	16,000
Total debt to include in the calculation	$ 91,714	$ 91,474

23. CAPITAL MANAGEMENT - continued

Share capital	$ 39,000	$ 39,000
Retained earnings	21,943	21,777
Total equity	60,943	60,777
Total capitalization	$ 152,657	$ 152,251
Total debt to total capitalization	60 %	60 %

There were no changes in the Utility's approach to capital management during the period.

24. SUBSEQUENT EVENTS

Subsequent to year end, the Utility entered into contracts for the construction of the transmission line from Pelly Crossing to Stewart Crossing. The cost of the contracts are $11.685 million payable over the course of construction and work is scheduled to be complete during 2010.

In addition the Utility entered into an agreement for the construction of a new hydroelectric powerhouse and related facilities in Mayo. The agreement has a target price of $77.7 million payable over the course of construction which is to be completed by March 31, 2012. The Utility has the right to terminate the agreement if all permits are not in place by certain dates.

25. COMPARATIVE FIGURES

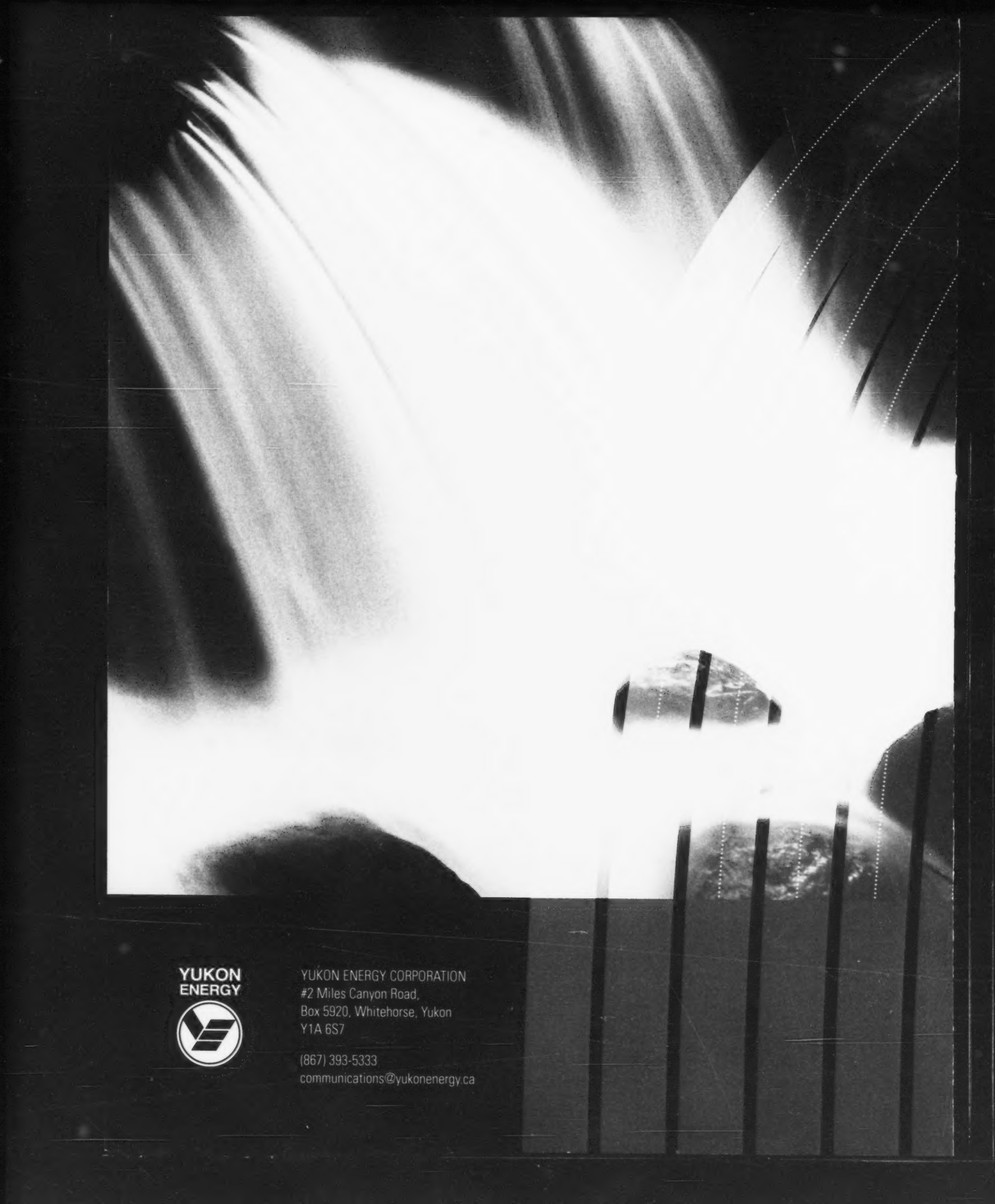
Certain 2008 figures have been reclassified to conform with the current year's presentation.

YEC SYSTEM	(in MW)
Hydro Facilities	
Whitehorse (WAF)*	40.0
Aishihik	30.0
Mayo	5.4
Total	75.4
Wind Facilities	
Haeckel Hill	0.8
Diesel Facilities	
Whitehorse (WAF)	25.0
Faro (WAF)	10.4
Dawson	4.3
Minto Mine	6.4
Mayo	2.0
Total	48.1
TOTAL YEC SYSTEM	123.5

YECL SYSTEM	(in MW)
Hydro Facilities	
Fish Lake	1.3
Diesel Facilities	
Carmacks (WAF)	1.3
Haines Junction (WAF)	1.3
Teslin (WAF)	1.3
Ross River (WAF)	1.0
Watson Lake	5.0
Beaver Creek	0.9
Destruction Bay	0.9
Old Crow	0.7
Pelly Crossing	0.7
Stewart Crossing	0.3
Swift River	0.3
Total	13.7
TOTAL YECL SYSTEM	15.0
Total Yukon Capacity	**138.5**

*WAF: Whitehorse-Aishihik-Faro interconnected grid

Source: Yukon Energy Corporation and the Yukon Electrical Company Limited.



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